C-5150-7

**State of the industry: Top 100 chains**

# Chain Store Age

## GENERAL MERCHANDISE TRENDS

June 1985

*CE outlook:*

**Will audio/video systems make Christmas?**

TWO DOLLARS PER ISSUE

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June 1985

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## A CURIOUS, DISAPPOINTING YEAR:

# 1984

**In a year filled with takeovers and acquisitions, retailers found everyday business difficult as consumers turned tight-fisted in the fourth quarter.**

*While not considered a "sexy" industry on the Street, retailing had its share of excitement in 1984.*

Two financial analysts from major investment houses were sitting at a meeting a few days after The Limited launched its bid for Carter Hawley Hale last year. When the conversation finally got around to the hostile takeover attempt, one analyst sighed, "It's about time. Retailing can be so boring."

It has often been observed on the Street that retailing, if not exactly boring, is certainly not one of the "sexy" industries. It seems so much more glamorous to mine for small hi-tech companies that will grow by 2,000% over the next three years, or hypothesize how much an oil company's wells would fetch if they were sold off by some corporate raider.

Over the years retailers have been able to derive some measure of comfort from the knowledge that they were not at the top of every raider's hit list. Presumably that freed management to go about its everyday business, which in many cases was challenging enough.

Now all of that may be changing. Even though 1984's most notable takeover attempt, The Limited's bid, failed, retailing saw a record number of acquisitions and mergers last year. And the pace has not slowed since then, as recent purchases of G. C. Murphy and Gaylord's indicate.

No Pickens, yet: Industry analysts count some 130 mergers throughout all forms of retailing last year. Few were conducted with the acerbity which characterized The Limited's bid and CHH's defense, and retailing has yet to see its T. Boone Pickens emerge. Yet, numerous small or underperforming chains, looking out over an increasingly difficult and competitive marketplace, did succumb to the overtures of more powerful, skilled companies ready to grow by acquisition.

By now the scenarios are familiar:

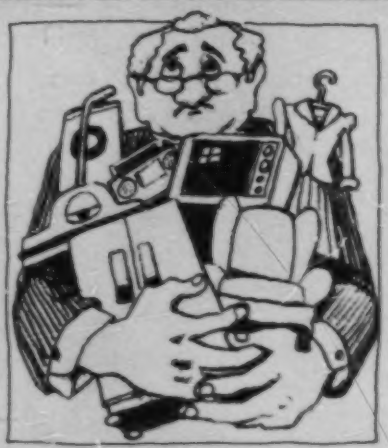
- A powerful chain, one whose stores are pumping out impressive sales per square foot, eyes a weak operator in its own or adjacent markets. The prey is often owned by a larger company which wants to get out of retailing, or at least out of that particular segment of the business.

Soon after the deal is consummated the acquirer moves in and furi-

*Fourth quarter depresses earnings gain for Top 15 retailers*

| Company | 1983 Volume (000 omitted) | 1984 Volume (000 omitted) | % Sale change | 1983 Earnings (000 omitted) | 1984 Earnings (000 omitted) | % Earnings change | Earnings as % of sales |
|---|---|---|---|---|---|---|---|
| 1. Sears, Roebuck & Co.[1] | 29,439,000[2] | 21,671,000[1] | + 6.6[1] | 654,000[1] | 656,000[1] | + 0.3[1] | 3.0[1] |
| 2. K mart | 16,597,500 | 21,895,900 | +13.4 | 492,300 | 499,100 | + 1.4 | 2.4 |
| 3. J. C. Penney | 12,570,000 | 13,451,000 | +11.4 | 467,000 | 435,000 | – 6.9 | 3.2 |
| 4. Dayton Hudson | 8,963,235 | 8,009,630 | +13.9 | 243,187 | 259,345 | + 6.6 | 3.2 |
| 5. Federated[3] | 7,215,900[3] | 7,961,000[3] | +10.3[3] | 683,000[3] | 649,000[3] | – 4.9[3] | 8.2[3] |
| 6. Montgomery Ward | 6,963,000 | 6,495,000 | + 6.1 | 40,000 | 53,000 | +32.5 | 0.8 |
| 7. Wal-Mart | 4,666,000 | 6,400,961 | +37.2 | 196,244 | 270,767 | +38.0 | 4.2 |
| 8. F. W. Woolworth[3] | 5,486,000[3] | 5,737,000[3] | + 5.2[3] | 118,000[3] | 141,000[3] | +19.5[3] | 2.5[3] |
| 9. May Department Stores | 4,188,900 | 4,762,400 | +13.8 | 187,000 | 214,100 | +14.5 | 4.5 |
| 10. Associated Dry Goods | 3,717,827 | 4,196,645 | +10.5 | 115,520 | 129,057 | + 4.4 | 2.9 |
| 11. R. H. Macy | 3,408,144 | 4,065,139 | +17.2 | 186,678 | 221,005 | +18.8 | 5.5 |
| 12. Allied Stores | 3,675,673 | 3,970,489 | + 8.0 | 128,471 | 109,733 | + 9.5 | 3.5 |
| 13. Carter Hawley Hale[3] | 3,191,992[3] | 3,724,294[3] | +28.1[3] | 55,385[3] | 27,136[3] | –51.9[3] | 0.7[3] |
| 14. Melville[2] | 3,188,100[2] | 3,523,562[2] | +10.5[2] | 313,300[2] | 331,700[2] | + 5.2[2] | 9.4[2] |
| 15. BATUS[2] | 3,145,000[2] | 3,374,261[2] | + 7.3[2] | 218,200[2] | 196,078[2] | –10.2[2] | 5.8[2] |
| Totals and averages | 106,488,234 | 118,347,561 | +11.2 | 4,099,470 | 4,213,387 | + 2.7 | 3.6 |

[1]All merchandising only [2]General merchandise sales and operating earnings only [3]Continuing operations only
Source: Chain Store Age research/annual reports



A slowdown in spending by consumers swelled inventories and kept profits modest. Income for the Top 15 general merchandise chains in '84 advanced just 2.7%.

cously begins remodeling stores. Within six months, maybe a year, the stores are doing 50% more sales, and the acquiring company's earnings bolt ahead.

• Or, a large chain, operating primarily in a mature, even dying segment of the business, sees its own long-term growth curtailed. Knowing there are only so many possible companies in its own business to acquire, and realizing that everyone else is also after these companies, the large operator decides it is time to diversify its portfolio.

The chain rapidly begins buying up small chains in other segments of retailing, most often specialty stores which can exploit special niches if they have the proper resources. In this case the acquirer does not covet the weak and the tottering, but the strong and the aggressive. Within a few days of each purchase the acquiring company announces it is keeping present management and rolling out dozens, if not hundreds, of these stores over the next few years.

• Or, a modest-sized public company, one whose stores are performing reasonably well, sees its stock price continue to slide for no good reason. Realizing that big portfolio managers do not pay much attention to a company unless its assets top $100 million, the company knows its stock will probably be chronically undervalued over the next few years, making the chain vulnerable to anyone with a few bucks to spend and a little ambition. The solution: Go private and find refuge from the sharks.

Taken together these scenarios account for most of the major financial transactions which have recently taken place in retailing. Dollar General, for instance, snapped up 280 stores from an Interco which wanted out of variety store retailing and then quickly converted the units. Partially because of the rapid changeover, earnings for the chain grew 36.2% this year. Happy with that kind of growth, Dollar General recently went out and bought another chain from Interco, the 208-store Eagle operation.

**Plenty of candidates:** The department store tier is filled with underperformers. At the start of the year perennial powerhouse Dillard's went out and acquired the problematic Stix, Baer & Fuller stores from Associated Dry Goods. Dillard's quickly loaded the acquired stores with stock and nearly doubled advertising. Sales shot up and costs associated with the move didn't seem to hurt Dillard's much. Earnings climbed more than 45% on a 50% sales gain.

Apparently satisfied with that kind of gain, Dillard's purchased the John A. Brown and Diamond's department stores from Dayton Hudson.

While regionals like Dollar General and Dillard's were on the acquisition kick, national chains continued to expand beyond their principal businesses. K mart's buying spree this year included an obscure, young home center chain and two blue-chip companies, Waldenbooks and Pay Less Drug Stores. In each case what K mart got was aggressive, knowledgeable management operating in highly focused niches. By 1989 K mart believes these and other divisions outside of its discount stores can contribute 25% of corporate sales.

With all of this acquisition activity taking place it isn't surprising

that one of Wall Street's favorite maneuvers these days, the leveraged buyout, also figured prominently in the 1984 retail picture. Duckwall-ALCO, tired of contending with an undervalued stock, went private again. Pay 'n Save, the diversified retailer facing two troublesome stockholders, also sought the protection of a LBO.

**A curious year:** While all of this activity may have produced a few more headlines for retailers, it didn't obscure the fact that 1984 was basically a disappointing year, and a curious one.

Just when so many industry observers were saying that retailers had learned their lessons during the last recession, that buyers were more conservative and had a handle on inventory, the consumer turned reluctant and inventories swelled.

What produced the slowdown in spending during the fourth quarter is anybody's guess. Everything from Walter Mondale's campaign to the budget deficit has been blamed. Traditional economic indicators of where spending is going did not prove very valuable. Personal income was up, unemployment down, consumer confidence high. But still shoppers stopped shopping, at least until everything went on sale.

What was most dramatic about the falloff in consumer spending was the speed with which it occurred. As early as the middle of the summer *Chain Store Age's* own buying intentions research showed that consumers were still in an acquisitive frame of mind. But even then there were telltale signs of trouble. Recently hot products like home computers and telephones suddenly seemed to be turning consumers off.

The price cutting which followed that sudden decline in spending was disheartening to the industry. Even hot products like VCRs were footballed all over the place. By mid-November a decent brand-name VCR could be had in most major markets for under $300.

Just how stingy the consumer became was apparent in the slowdown on the soft goods side of the store. Price cutting on imported apparel, which reached store shelves in record amounts this year, presented the consumer with some of the best values available in several seasons. But still, apparel sales declined in both November and December.

The sales slowdown virtually guaranteed that last year's record-setting pace of importing would increase. Indeed, importing itself became a major story last year as retailers scrambled to satisfy a more demanding customer but faced an increasingly protectionist government.

Despite government quotas, importing continues to grow and has lately moved out beyond typical ar-

*Dillards big winner; Dayton Hudson off*

| Company | % change sales | % change op. inc. | Op. inc. % sales | Avg. sales per store | Sales per gross sq. ft. | Op. inc. per gross sq. ft. | % Op. inc. ROA | % change compound sales '77-'84 | % change compound op. inc. '77-'84 |
|---|---|---|---|---|---|---|---|---|---|
| Allied | + 8.0[1] | + 5.8 | 5.0 | $14,466,665[1] | $169[1] | $ 8.50 | 11.0 | 8.1 | 13.2 |
| Associated Dry Goods[1] | + 4.7 | + 5.5 | + 3.4 | 16,283,821 | 191 | 9.81 | 20.2 | 7.4 | 19.4 |
| Carter Hawley Hale[1] | +18.3 | - 6.7 | 4.1 | 21,999,200 | 122 | 4.93 | 13.2 | 8.8 | - 1.5 |
| Dayton Hudson[1] | + 4.0 | -31.0 | 5.9 | 34,333,000 | 172 | 11.77 | 14.0 | 5.6 | 9.5 |
| Dillard's | +58.7 | +42.5 | 11.0 | 15,966,000 | 114 | 12.62 | 18.7 | 25.7 | 32.9 |
| Federated[2] | 18.0 | - 2.8 | 9.4 | 29,846,454 | 148 | 13.75 | 15.6 | 8.9 | 5.5 |
| R. H. Macy | +17.2 | +25.6 | 12.4 | 43,015,873 | 173 | 21.90 | 23.9 | 14.6 | 21.2 |
| May Co.[1] | +16.0 | +16.5 | 10.4 | 22,062,076 | 186 | 19.94 | 15.9 | 7.8 | 9.3 |
| Mercantile | + 5.0 | + 2.3 | 10.3 | 22,024,567 | 170 | 17.36 | 17.8 | 9.9 | 14.6 |
| Composite | +11.6 | + 4.6 | 9.9 | 23,823,572 | 132 | 13.07 | 17.0 | +10.9 | +12.6 |

[1]Dept. Stores [2]Dept./Specialty Stores only Source: Chain Store Age research/annual reports

*Ward heals slowly; Penney, Sears slip*

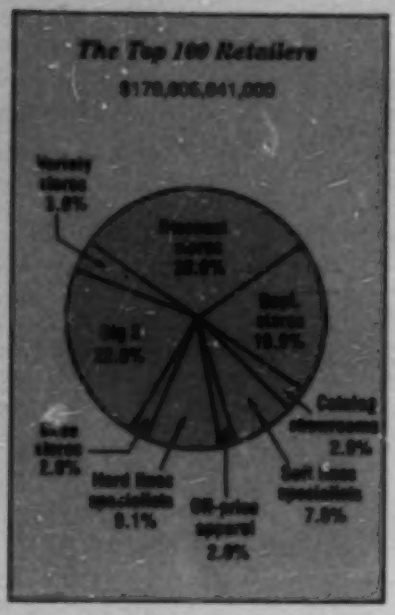
| Company | % change sales | % change op. inc. | Op. inc. % sales | Avg. sales per store | Sales per gross sq. ft. | Op. inc. per gross sq. ft. | % Op. inc. ROA | % change compound sales '77-'84 | % change compound op. inc. '77-'84 |
|---|---|---|---|---|---|---|---|---|---|
| Penney | +12.1 | - 0.5 | 7.0 | $11,920,333[2] | $ 94[2,3] | $ 8.62 | 12.0 | +4.4 | + 9.0 |
| Sears[1] | + 6.0 | -10.3 | 5.3 | 19,937,500[2] | 139[2] | 10.24 | 5.8 | +5.2 | - 2.2 |
| Ward | + 8.2 | + 9.5 | 6.1 | 13,640,540[2] | 86[2] | 9.34 | 11.9 | +9.8 | +30.0 |
| Composite | + 8.1 | - 2.7 | 5.3 | 15,448,189[2] | 112[2] | 9.83 | 8.7 | +5.5 | + 8.7 |

[1]U.S. Merchandising [2]Excludes catalog sales [3]Main stores Source: Chain Store Age research/annual reports

*Top discount chains post impressive results*

| Company | % change sales | % change op. inc. | Op. inc. % sales | Avg. sales per store | Sales per gross sq. ft. | Op. inc. per gross sq. ft. | % Op. inc. ROA | % change compound sales '77-'84 | % change compound op. inc. '77-'84 |
|---|---|---|---|---|---|---|---|---|---|
| Ames | +27.8 | + 49.3 | 6.1 | $ 4,751,144 | $ 92 | $ 6.56 | 18.2 | +22.7 | +22.4 |
| Bradlees | +18.8 | + 5.9 | 6.1 | 18,804,984 | 136 | 9.47 | 17.4 | +21.1 | +24.7 |
| Gold Circle/ Rickway | + 6.9 | - 18.2 | 3.9 | 12,993,985 | 119 | 3.85 | 7.9 | +12.3 | + 5.9 |
| Heck's | + 7.0 | -155.0 | — | 3,741,935 | 76 | — | — | + 4.7 | — |
| Jamesway | +14.8 | + 17.0 | 5.2 | 5,889,135 | 97 | 5.04 | 13.7 | +14.4 | +12.8 |
| K mart[1] | +11.3 | + 4.7 | 4.9 | 9,347,946 | 143 | 6.14 | 9.2 | + 9.5 | + 7.8 |
| Rose's | +11.8 | + 5.0 | 4.5 | 4,883,180 | 103 | 4.66 | 16.4 | +12.8 | +17.1 |
| Target | +14.9 | + 33.0 | 6.6 | 16,904,761 | 173 | 11.70 | 17.1 | +26.8 | +26.3 |
| Venture | +19.1 | + 14.2 | 5.3 | 16,836,363 | 145 | 7.70 | 15.5 | +12.1 | +43.3 |
| Wal-Mart | +37.8 | + 41.1 | 7.9 | 9,217,142 | 166 | 14.12 | 22.5 | +38.9 | +44.8 |
| Zayre[1] | +15.4 | + 34.6 | 5.0 | 7,756,183 | 97 | 5.81 | 16.8[2] | + 7.2 | +17.3 |
| Composite | +14.6 | + 17.6 | 5.2 | 9,145,385 | 139 | 7.22 | 13.1 | +14.6 | +15.8 |

[1]Discount store only [2]Total corporate
Source: Chain Store Age research




eas like clothing and electronics. Even stationery buyers have turned to the Orient for items as prosaic as pencils and notebook filler paper.

Even with the presence of so much imported merchandise bolstering the bottom line, most retailers turned in earnings that were far below expectations. Although sales for the top 15 general merchandise chains advanced more than 11%, earnings moved ahead just 2.7%. Earnings as a per cent of sales were 3.6%, compared to 3.9% last year.

The intensely promotional nature of the year is reflected in several key performance indicators. The top nine department stores tracked by *CSA* showed a healthy 11.8% composite sales gain. Sales per store jumped nearly $4 million on big gains at R. H. Macy, Carter Hawley Hale and others.

But earnings did not follow sales. Operating income for the nine companies advanced just 4.6% while the ratio of profits to sales declined from 9.8% in 1983 to 9.5% last year.

While Dillards' proved a big winner and May had a solid year, steady performers like Allied and Associated Dry Goods could manage modest operating profit gains of less than 6%.

Top discount stores, on the other hand, appeared more at ease with the intensely promotional climate. While the chains tracked by *CSA* could not match 1983's 60.2% gain in operating profits, they did produce a 17.8% increase last year. Among the big winners: Wal-Mart, Zayre

*Top 100 chain stores, 1984*

| Rank | Company | 1984 Sales (000 or 'mil) | 1983 Stores | 1984 Sales (000 omitted) | 1981 Stores | % Sales change |
|---|---|---|---|---|---|---|
| 1 | Sears[1] (Chicago) | | 813 | | 796 | + 6.6 |
| 2 | K mart (Troy, Mich.) | | 2,547 | | 3,529 | +12.4 |
| | • K mart | | 2,186 | | 2,173 | +11.6 |
| 3 | J. C. Penney (N.Y.) | | 2,014 | | 1,994 | +11.2 |
| 4 | Dayton Hudson (Minneapolis) | | 1,075 | | 1,136 | +10.6 |
| | • Target | | 295 | | 215 | +13.5 |
| | • Mervyn's | | 199 | | 123 | +26.6 |
| | • Dayton Hudson | | 36 | | 36 | +12.4 |
| | • B. Dalton | | 791 | | 791 | +10.6 |
| | • Lechmere | | 6 | | 6 | +22.5 |
| 5 | Federated[2] (Cincinnati) | | 434 | | 443 | +10.3 |
| | • Bloomingdale's | | 14 | | 15 | +14.6 |
| | • Abraham & Straus | | 15 | | 15 | + 6.7 |
| | • Burdines | | 25 | | 28 | + 8.7 |
| | • Foley's | | 15 | | 17 | + 8.6 |
| | • Bullock's | | 23 | | 22 | +14.4 |
| | • Gold Circle | | 58 | | 58 | + 6.6 |
| | • Rich's | | 17 | | 18 | +10.2 |
| | • Lazarus | | 17 | | 17 | + 7.5 |
| | • Sanger Harris/Levy's | | 18 | | 18 | +12.6 |
| | • Rickway | | 31 | | 31 | + 7.7 |
| | • Stellito Rikes | | 14 | | 14 | + 8.8 |
| | • Filene's | | 14 | | 15 | +12.3 |
| | • L. Maguin | | 25 | | 25 | +12.2 |
| | • Filene's Basement | | 14 | | 15 | +36.7 |
| | • Goldsmith's | | 6 | | 6 | +11.6 |
| | • Boston Store | | 6 | | 8 | +13.0 |
| | • The Children's Place | | 114 | | 136 | +31.6 |
| 6 | Montgomery Ward (Chicago) | | 327 | | 322 | + 6.3 |
| | • Jefferson Ward[3] | | 48 | | 44 | + 3.6 |
| 7 | Wal-Mart (Bentonville, Ark.) | | 845 | | 736 | +37.2 |
| 8 | F. W. Woolworth (N.Y.) | | 5,279 | | 8,549 | + 1.8 |
| | • U.S. Woolworth | | 1,236 | | 1,219 | + 4.7 |
| 9 | May Dept. Stores (St. Louis) | | 1,584 | | 1,384 | +13.8 |
| | • Venture | | 91 | | 97 | +17.8 |
| | • May California | | 34 | | 34 | + 8.5 |
| | • Volume Shoes | | 1,389 | | 1,362 | +27.1 |
| | • Hecht | | 23 | | 23 | +11.4 |
| | • Famous-Barr | | 16 | | 16 | + 8.8 |
| | • Kaufmann's | | 11 | | 11 | + 8.8 |
| | • May-Cleveland | | 16 | | 16 | + 8.7 |
| | • Meier & Frank | | 7 | | 7 | + 8.7 |
| | • G. Fox | | 8 | | 8 | +11.4 |
| | • May D & F | | 11 | | 12 | +38.4 |
| | • O'Neil's | | 16 | | 16 | + 8.8 |
| | • Strouss | | 8 | | 8 | + 8.8 |
| | • May-Cohen's | | 6 | | 6 | + 2.8 |
| 10 | Associated Dry Goods[3] (N.Y.) | | 318 | | 333 | +10.8 |
| | • Caldor | | 95 | | 103 | +13.2 |
| | • Lord & Taylor | | 40 | | 42 | +10.3 |
| | • J. W. Robinsons (Calif.) | | 21 | | 21 | +10.8 |
| | • Loehmann's | | 67 | | 72 | + 9.2 |
| | • L. S. Ayres | | 18 | | 19 | + 8.1 |
| | • Sibley | | 14 | | 14 | +10.8 |
| | • Horne | | 13 | | 13 | + 8.8 |
| | • Denver Dry Goods | | 12 | | 12 | +12.3 |
| | • Hahns | | 8 | | 8 | + 7.1 |
| | • Goldwater's | | 9 | | 9 | + 8.8 |
| | • Robinson's (Fla.) | | 7 | | 7 | +11.9 |
| | • Stewart's | | 7 | | 7 | + 7.1 |
| | • Powers | | 7 | | 7 | + 4.2 |
| 11 | R. H. Macy[3] (N.Y.) | | 93 | | 96 | +17.2 |
| | • Bamberger's | | 23 | | 23 | +13.7 |
| | • Macy's New York | | 17 | | 19 | +10.8 |
| | • Macy's California | | 22 | | 23 | +10.3 |
| | • Davison's | | 13 | | 14 | +28.5 |
| | • Macy's Midwest | | 18 | | 17 | + 7.8 |
| 12 | Allied Stores[3] (N.Y.) | | 570 | | 587 | + 8.8 |
| | • Jordan Marsh (NE) | | 16 | | 17 | + 8.8 |
| | • The Bon | | 36 | | 37 | + 8.8 |
| | • Jesko's | | 28 | | 29 | + 7.8 |
| | • Stern's | | 16 | | 17 | +11.3 |
| | • Maas Bros. | | 19 | | 19 | + 8.7 |
| | • Jordan Marsh (Fla.) | | 15 | | 15 | + 4.8 |
| | • Brooks Bros. | | 38 | | 47 | +10.8 |
| | • Pomeroy's | | 14 | | 15 | + 7.7 |
| | • Bonwit Teller | | 14 | | 15 | +12.8 |
| | • Miller & Rhodes | | 22 | | 22 | + 8.8 |
| | • Donaldson's | | 9 | | 9 | + 8.1 |
| | • Carlisle's | | 16 | | 16 | +10.8 |
| | • Miller's | | 12 | | 13 | +11.1 |
| | • Raaf's | | 6 | | 6 | +28.8 |
| | • Block's | | 9 | | 11 | + 2.4 |

*The speed with which spending dropped off took retailers by surprise.*

and Target.

Particularly noteworthy about that increase in earnings is that it came on a smaller percentage gain in sales, 14.6%. Discount stores clearly got hurt less by last minute markdowns than department stores. Store productivity was up modestly. Sales per store advanced to $9.15 million for the top discount stores, from $8.27 million last year.

**Tough for national chains:** The year proved especially difficult for national chains. In the midst of its big gamble to cast itself as a department store chain, Penney's profits tumbled nearly 7%. In an industry which contains its share of rumors, talk is already abroad that Penney is now carefully re-evaluating some of its repositioning strategies.

K mart's mediocre earnings proved the year's biggest surprise. Through the first three quarters earnings were way ahead and K mart was encouraging analysts in predictions that year-end profits would be up at least 15%. But poor systems gave K mart execs a distorted picture of what was transpiring until the holiday selling season was virtually over.

One of the year's most significant profit declines among major retailers does not show up on *CSA*'s chart. R. H. Macy, which ended another banner fiscal year last July, before the slowdown began, lost some of its mystique in the first six months of its current year, when profits tumbled 6%. With excessive inventories a nagging problem and everyone promoting heavily, Macy's

*Top 100 chain stores, 1984*

| Rank | Company | 1983 Sales (mil omitted) | 1983 Stores | 1984 Sales (mil omitted) | 1984 Stores | % Sales change |
|---|---|---|---|---|---|---|
| 13 | Carter Hawley Hale[1] (L.A.) | [illegible] | 262 | [illegible] | 288 | +20.1 |
| | • Broadway So., Calif. | [illegible] | 40 | [illegible] | 40 | +15.3 |
| | • Emporium Capwell | [illegible] | 21 | [illegible] | 22 | +18.6 |
| | • Neiman-Marcus | [illegible] | 19 | [illegible] | 21 | +21.8 |
| | • John Wanamaker's | [illegible] | 16 | [illegible] | 16 | +16.4 |
| | • Weinstock's | [illegible] | 12 | [illegible] | 12 | +16.3 |
| | • The Bon | [illegible] | 25 | [illegible] | 25 | +13.0 |
| | • Neil Rawlow | [illegible] | 17 | [illegible] | 16 | +13.9 |
| | • Broadway Southwest | [illegible] | 10 | [illegible] | 10 | +17.2 |
| | • Contempo Casuals | [illegible] | 79 | [illegible] | 105 | +24.0 |
| | • Bergdorf Goodman | [illegible] | 1 | [illegible] | 1 | +96.7 |
| 14 | Melville[1] (Harrison, N.Y.) | [illegible] | 5,234 | [illegible] | 5,358 | +10.5 |
| | • Kay Bee Toys & Hobby | [illegible] | 456 | [illegible] | 533 | +23.4 |
| 15 | Baker[1] (Louisville) | [illegible] | 232 | [illegible] | 247 | + 7.3 |
| | • Saks | [illegible] | 38 | [illegible] | 40 | +12.4 |
| | • Marshall Field | [illegible] | 21 | [illegible] | 21 | + 0.1 |
| | • Gimbels-East | [illegible] | 20 | [illegible] | 20 | + 3.2 |
| | • Frederick & Nelson | [illegible] | 15 | [illegible] | 15 | + 4.1 |
| | • Kohl's | [illegible] | 31 | [illegible] | 34 | +10.1 |
| | • Gimbels-Milwaukee | [illegible] | 11 | [illegible] | 9 | + 0.0 |
| | • Gimbels-Pittsburgh | [illegible] | 7 | [illegible] | 7 | + 2.1 |
| | • Ivey's-Carolinas | [illegible] | 13 | [illegible] | 13 | + 0.1 |
| | • Ivey's-Florida | [illegible] | 12 | [illegible] | 12 | +10.0 |
| 16 | Zayre (Framingham, Mass.) | [illegible] | 749 | [illegible] | 847 | +17.3 |
| | • Zayre | [illegible] | 276 | [illegible] | 290 | +15.4 |
| | • Hit or Miss/T. J. Maxx | [illegible] | 474 | [illegible] | 557 | +37.3 |
| 17 | Wickes (San Diego) | [illegible] | 2,800 | [illegible] | 1,084 | + 0.0 |
| 18 | Household Merchandising[1] (Chicago) | [illegible] | 2,587 | [illegible] | 3,451 | + 1.3 |
| | • T.G. & Y. | [illegible] | 812 | [illegible] | 743 | - 8.9 |
| | • Ben Franklin | [illegible] | 1,863 | [illegible] | 1,629 | + 4.8 |
| 19 | Tandy Corp. (Fort Worth) | [illegible] | 8,864 | [illegible] | 9,013 | +10.0 |
| 20 | Best Products (Richmond, Va.) | [illegible] | 197 | [illegible] | 204 | +10.0 |
| 21 | Lucky[1] (Dublin, Calif.) | [illegible] | 1,062 | [illegible] | 854 | + 0.2 |
| | • Gemco[1] | [illegible] | 78 | [illegible] | 77 | + 0.0 |
| 22 | Belk (Charlotte, N.C.) | [illegible] | 350 | [illegible] | 358 | +12.1 |
| 23 | W. R. Grace (N.Y.) | [illegible] | 863 | [illegible] | 853 | +10.0 |
| 24 | Mercantile[1] (N.Y.) | [illegible] | 77 | [illegible] | 79 | + 0.0 |
| | • Geyfers | [illegible] | 12 | [illegible] | 12 | + 0.1 |
| | • McAlpin's | [illegible] | 9 | [illegible] | 9 | +11.1 |
| | • Jones | [illegible] | 7 | [illegible] | 7 | + 0.0 |
| | • Castner Knott | [illegible] | 11 | [illegible] | 11 | +12.0 |
| | • Joslins | [illegible] | 9 | [illegible] | 10 | +15.0 |
| | • Geyfers-Montgomery Fair | [illegible] | 6 | [illegible] | 6 | + 7.7 |
| | • Bacon's | [illegible] | 6 | [illegible] | 6 | +22.0 |
| | • JB White | [illegible] | 7 | [illegible] | 7 | + 7.1 |
| | • Linn | [illegible] | 3 | [illegible] | 3 | +11.1 |
| 25 | Toys "R" Us (Rochelle Park, N.J.) | [illegible] | 170 | [illegible] | 203 | +19.0 |
| 26 | Service Merchandise (Nashville) | [illegible] | 173 | [illegible] | 205 | +13.0 |
| 27 | McCrory Corp. (N.Y.) | [illegible] | 1,612 | [illegible] | 1,523 | + 0.0 |
| | • McCrory | [illegible] | 716 | [illegible] | 723 | +12.2 |
| | • Lerner | [illegible] | 796 | [illegible] | 800 | - 1.3 |
| 28 | Fred Meyer (Portland) | [illegible] | 88 | [illegible] | 98 | +27.1 |
| 29 | SCOA (Hills) (Canton, Mass.) | [illegible] | 999 | [illegible] | 882 | + 0.1 |
| 30 | Stop & Shop (Braintree, Mass.) | [illegible] | 127 | [illegible] | 132 | +10.0 |
| 31 | The Limited (Columbus) | [illegible] | 1,412 | [illegible] | 2,475 | +23.7 |
| 32 | Dillard's (Little Rock) | [illegible] | 82 | [illegible] | 93 | +30.7 |
| 33 | U.S. Shoe Corp. (Cincinnati) | [illegible] | 1,836 | [illegible] | 1,879 | +17.5 |
| 34 | Meijer (Grand Rapids) | [illegible] | 49 | [illegible] | 52 | +11.1 |
| 35 | Edison Bros. (St. Louis) | [illegible] | 2,175 | [illegible] | 2,356 | + 3.3 |
| 36 | Nordstrom's (Seattle) | [illegible] | 37 | [illegible] | 41 | +24.7 |
| 37 | Petrie (Secaucus, N.J.) | [illegible] | 963 | [illegible] | 1,370 | +32.0 |
| 38 | Rose's (Henderson, N.C.) | [illegible] | 193 | [illegible] | 197 | +11.4 |
| 39 | G. C. Murphy (McKeesport, Pa.) | [illegible] | 486 | [illegible] | 383 | + 4.7 |
| 40 | Ames (Rocky Hill, Conn.) | [illegible] | 168 | [illegible] | 180 | +29.5 |
| 41 | Western Auto (Kansas City) | [illegible] | 2,488 | [illegible] | 2,450 | + 7.4 |
| 42 | Super Valu[1] (Green Bay) | [illegible] | 39 | [illegible] | 39 | +15.5 |
| | • Shopko | [illegible] | 39 | [illegible] | 39 | +20.4 |
| 43 | Strawbridge & Clothier (Philadelphia) | [illegible] | 30 | [illegible] | 31 | +10.0 |
| | • Clover | [illegible] | 18 | [illegible] | 19 | +10.5 |
| 44 | Hartmarx (Chicago) | [illegible] | 480 | [illegible] | 453 | +13.0 |
| 45 | Fedco (Santa Fe Springs, Calif.) | [illegible] | 8 | [illegible] | 8 | +20.0 |
| 46 | Carson Pirie Scott (Chicago) | [illegible] | 24 | [illegible] | 296 | +14.4 |
| 47 | INTERCO (St. Louis) | [illegible] | 561 | [illegible] | 283 | - 21.4 |
| 48 | The Gap (San Bruno, Calif.) | [illegible] | 550 | [illegible] | 623 | +11.3 |
| 49 | H. J. Wilson (Baton Rouge) | [illegible] | 79 | [illegible] | 79 | + 1.6 |
| 50 | Circuit City (Richmond) | [illegible] | 97 | [illegible] | 96 | +46.4 |

*The consumer's stinginess became apparent quickly in soft lines.*

brand of power retailing no longer seemed so distinctive to shoppers.

While no one benefited from the intensely promotional fourth quarter, the slowdown in spending came at a particularly inopportune time for Carter Hawley Hale. Finally rid of The Limited takeover bid and free to concentrate on its business, CHH went after market share with aggressive advertising and price-cutting programs. Sales responded, jumping more than 19% in department stores (16.9% on a same-store basis). But at what price sales? Earnings in department stores dipped 5.4%.

Not all the news from large chains was bad. F. W. Woolworth continues its climb back with a strategy which emphasizes more productivity in its variety stores and a continued move into specialty retailing. By year-end some 300 variety stores will sport the successful new format, which is producing 30% better sales and 45.5% higher earnings than traditional Woolworth stores.

Then there is Wal-Mart. Even though the chain grabbed headlines for switching its president and vice chairman, the real news was that the Sam's Wholesale Club division is chugging along at an annualized sales rate of $700 million. Costs associated with rapidly expanding that division did not hurt corporate profits much. They rose 38%. Long an industry powerhouse, Wal-Mart is now frequently mentioned as a potential suitor for the many small and midsized discount chains which operate in its expanding territory. □

—Steve Malanga

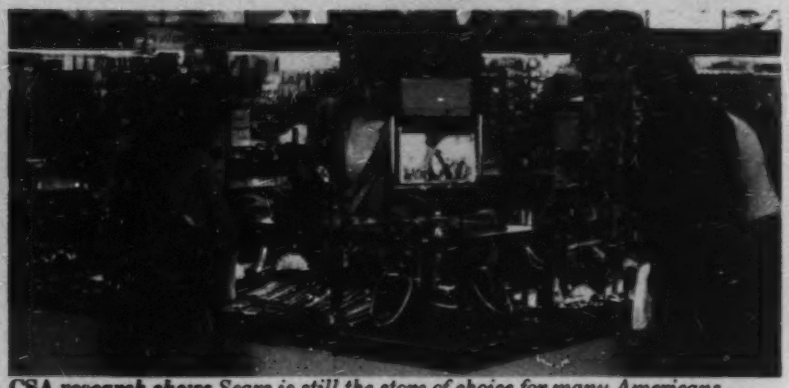
*Top 100 chain stores, 1984*

| Rank | Company | 1983 Sales (000 omitted) | 1983 Stores | 1984 Sales (000 omitted) | 1984 Stores | % Sales change |
|---|---|---|---|---|---|---|
| 81 | Dollar General (Scottsville, Ky.) | | 1,127 | | 1,000 | |
| 82 | Jamesway (Secaucus, N.J.) | | 78 | | 85 | |
| 83 | Hock's (Charleston, W. Va.) | | 122 | | 125 | |
| 84 | Woodward & Lothrop (Washington, D.C.) | | 16 | | 16 | |
| 85 | Pamida (Omaha) | | 164 | | 160 | |
| 86 | Consumers Distrib.—U.S. (Edison, N.J.) | | 134 | | 160 | |
| 87 | General Mills (Minneapolis) | | 222 | | 224 | |
| 88 | Child World (Avon, Mass.) | | 90 | | 104 | |
| 89 | C. R. Anthony Co. (Oklahoma City) | | 296 | | 288 | |
| 90 | Silo (Philadelphia) | | 72 | | 97 | |
| 91 | Duckwall-ALCO (Abilene, Kan.) | | 156 | | 158 | |
| 92 | Schottenstein Stores (Columbus) | | 39 | | 42 | |
| 93 | The Price Club[1] (San Diego) | | 11 | | 15 | |
| 94 | Family Dollar (Charlotte, N.C.) | | 635 | | 765 | |
| 95 | Beall's (Jacksonville, Tex.) | | 126 | | 135 | |
| 96 | Burlington Coat Factory (Burlington, N.J.) | | 42 | | 68 | |
| 97 | Spencer Gifts (Pleasantville, N.J.) | | 435 | | 483 | |
| 98 | Oshman's (Houston) | | 186 | | 192 | |
| 99 | SE Nichols (N.Y.) | | 42 | | 43 | |
| 70 | Elder-Beerman (Dayton) | | 21 | | 21 | |
| 71 | Cook's United (Maple Heights, Ohio) | | 94 | | 53 | |
| 72 | OTASCO (Tulsa) | | 288 | | 286 | |
| 73 | House of Fabrics (Van Nuys, Calif.) | | 664 | | 740 | |
| 74 | Hess's (Allentown, Pa.) | | 29 | | 32 | |
| 75 | D. H. Holmes (New Orleans) | | 14 | | 15 | |
| 76 | Prange (Prangeway) (Green Bay) | | 71 | | 74 | |
| 77 | Higbee (Cleveland) | | 11 | | 11 | |
| 78 | Pier I Imports (Forth Worth) | | 321 | | 351 | |
| 79 | Jacobson Stores (Jackson, Mich.) | | 18 | | 19 | |
| 80 | Charming Shoppes (Bensalem, Pa.) | | 303 | | 362 | |
| 81 | Pic 'N' Save (L.A.) | | 85 | | 90 | |
| 82 | Federated Group (City of Commerce, Calif.) | | 28 | | 43 | |
| 83 | Jewelcor (Wilkes-Barre, Pa.) | | 24 | | 24 | |
| 84 | Fabri Centers (Cleveland) | | 628 | | 657 | |
| 85 | B. Altman (N.Y.) | | 6 | | 6 | |
| 86 | Bergner's (Peoria, Ill.) | | 25 | | 25 | |
| 87 | Lionel Leasure (Philadelphia) | | 58 | | 52 | |
| 88 | Boscov's (Reading, Pa.) | | 9 | | 10 | |
| 89 | J.Byron's (Miami) | | 48 | | 57 | |
| 90 | Ross Stores (South San Francisco) | | 26 | | 66 | |
| 91 | Godchaux/Maison Blanche (Baton Rouge) | | 6 | | 7 | |
| 92 | Liberty House (Honolulu) | | 48 | | 58 | |
| 93 | Syms (N.Y.) | | 11 | | 12 | |
| 94 | Orbach's (N.Y.) | | 12 | | 12 | |
| 95 | Pacific Stereo (Emeryville, Ca.) | | 81 | | 85 | |
| 96 | Wieboldt Stores (Chicago) | | 13 | | 13 | |
| 97 | Danners 3D (Indianapolis) | | 56 | | 55 | |
| 98 | Younkers (Des Moines) | | 29 | | 29 | |
| 99 | Sprouse-Reitz (Portland, Ore.) | | 320 | | 317 | |
| 100 | Howland-Steinbach, Hochschild Kohn (White Plains, N.Y.) | | 34 | | 29 | |
| | Totals | | 61,313 | | 64,683 | |

Divisional units are not duplicated in the tabulation of United States general merchandise chain totals.
[1]U.S. only.
[2]General merchandise sales only.
[3]Divisional sales estimated.
Source: *Chain Store Age* research/annual reports.

Sears' performance in the second half of 1984 dipped as consumers tightened pursestrings. Reformatting stores to Store of the Future concept continued.

# Sears' domestic profits inch ahead



*CSA research shows Sears is still the store of choice for many Americans.*

If America shops at Sears, as the chain's slogan once suggested, then when America stops shopping, Sears suffers.

As consumers tightened their purse strings in the second half of last year, Sears' performance dipped accordingly. In the third quarter, earnings for the entire Merchandise Group rose slightly on the strength of big gains in credit operations, but earnings from Sears stores here in the United States declined 20.5%. By the fourth quarter even the solid performance of the credit operations could not keep the entire Merchandise Group's earnings from sliding 3.1%.

For the full year, earnings for domestic merchandising barely inched ahead from $654 million in 1983 to $655 million last year. A LIFO credit of $70.9 million helped the bottom line considerably, but still Sears' domestic operations only accounted for 72.4% of the Merchandise Group's earnings last year, down from 83.7% of earnings the year before.

Although Sears has worked hard to boost its apparel business, it also proved soft. Children's wear volume actually began declining as Sears entered the key Christmas selling season. Both men's and women's apparel were basically flat during the period.

In the midst of this downturn in consumer spending, Sears continued to reformat its stores in the Store of the Future scheme. By early March, 111 stores were in that format and another 126 units are scheduled for this year. That includes 117 remodels and nine new stores.

Hand in hand with its Store of the Future strategy, Sears has begun testing a smaller prototype, one designed for markets of 20,000 to 100,000 people. The first such store was opened in Alma, Mich., with 8,300 sq. ft. of selling space. It focuses on key Sears categories: major appliances, electronics, paint and hardware.

*Chain Store Age*'s own extensive research shows that Sears is still the store of choice for many Americans (*CSA*, May 1985). But until America starts shopping again Sears may not reap all of the benefits of that perception. In the first quarter of the current fiscal year, earnings for domestic merchandising declined 68%, from $25 million to $8 million.

In the midst of those problems, Sears probably cannot expect too much additional help from Sears Business Centers. The chain of stores selling computer hardware and software grew to 100 units in 1984, but Sears has put a hold on growth of the division. □

## Gross margins slip

Heavy fourth quarter price cutting more than offset the positive effect Sears' Store of the Future program had on gross margins last year. After a big boost two years ago, gross margins at Sears slipped 0.2% in 1984 to 34.1% of sales.

The sluggishness of fourth quarter sales was clearly reflected in the amount of inventory which stacked up in the Sears pipeline. On a LIFO basis the chain ended up with inventories ahead 31.4% to $4.042 billion in 1984. By contrast, Sears closed out 1983 with 1% fewer dollars in inventory than the year before.

The year might have been worse for the nation's largest retailer had it not done a good job controlling expenses. SG&A rose just 0.2% even though the chain is in the midst of a costly remodeling program.

Another bright picture for the Merchandise Group was its credit services operation. Three years ago these operations posted a loss of $83 million, but last year they earned $243.5 million. Credit operations accounted for 26.8% of group earnings.

| Year | Sales[1] ($000 omitted) | Profits[1] ($000 omitted) | Stores |
|---|---|---|---|
| 1980 | $16,891,000 | $219,500 | 864 |
| 1981 | 18,223,000 | 362,200 | 851 |
| 1982 | 16,779,000 | 466,000 | 831 |
| 1983 | 21,439,700 | 654,300 | 813 |
| '80-'84 change | +27.7% | +199% | −56 (−7.9%) |

[1]Fiscal year ended Dec. 31, 1984.
[2]U.S. Merchandising.
Source: CSA research

Bringing in higher-ticket branded goods helped K mart's image, but problems in weeding out old inventory to bring in the new resulted in heavy discounting.

# K mart learns important lessons in '84

*K mart's upscaling in areas such as housewares has paid off well.*

K mart learned two very important lessons in 1984. The world's second largest retailer discovered that shoppers would spend money for higher-priced brand name goods in its stores. Considering how much K mart has staked on a strategy of upgrading its mix, that discovery must have come as no small relief.

But K mart also found what some in the industry have suspected: That the K mart systems and field force might not be up to executing these new programs very well, especially during a crucial transitional phase.

For most of 1984, earnings followed sales, and gross margins improved steadily. But then the bottom fell out of the year. As K mart store managers moved in the new goods they had to rid themselves of the old, sometimes at heavily discounted prices.

After nine months K mart's profits were ahead 21%, but in the fourth quarter earnings tumbled 17.8%, holding earnings for the year down to a barely noticeable 1.4% gain. For the year K mart earned $499 million on sales of $21.1 billion.

Exactly how dramatic the giant clearance sale must have been was illustrated by K mart's sharply declining gross margin. After six months the margin has been ahead more than a full point, to 26.8%, but pressure in the fourth quarter drove the margin for the year down to 27.7%.

K mart's top executives must have had some sense of the problem, although they clearly underestimated its magnitude. Shortly before Christmas the chain announced a reorganization which would place more emphasis on administration and operations. The new head of this unit, Joseph Thomas, was charged with getting POS systems into K mart, and quickly.

By the end of this year 140 key K mart stores throughout the country will have POS. Then the chain plans to add systems to 600 to 700 stores a year.

Even as K mart worked to reshape its discount division the company moved to see that it depended less on those stores for revenues. K mart made three major diversification moves in the year, snapping up two blue-chip companies, Waldenbooks and Pay'ess Drug Stores, and a small home center chain which has enormous potential.

Of the 200 new stores K mart plans to open this year, just 25 will be discount stores. Waldenbooks will add about 70 units, while Designer Depot will grow from 52 to about 70 off-price clothing stores. Pay Less will add 27 drug stores, giving it 191, and the two cafeteria chains, Furr's and Bishop's, together will open 22 new locations. □

## New ad strategy boosts SGA %

K mart's additional advertising commitment last year helped push the company's SG&A to 23.6% of sales, up from 23.1% of sales the previous year.

K mart spent $554 million on advertising in 1984 as it sought to lure customers in for a look at its new assortments and presentations. That sum represented a 30% gain in advertising dollars in just one year. The chain reportedly spent as much as $20 million just on its advertising program keyed to the 1984 Summer and Winter Olympic Games.

The K mart refurbishing program and the higher stock levels required for new assortments made it necessary for K mart to do more borrowing. As a result, interest expense soared to $106.8 million from only $46.1 million the year before. Acquisitions of Waldenbooks and Home Centers of America, which later became Builders Square, also contributed to the dramatic rise in interest expense.

| Year | Sales (000 omitted) | Profits (000 omitted) | Stores |
|---|---|---|---|
| 1983 | $14,204,000 | $261,000 | 2,242 |
| 1981 | 16,527,000 | 229,300 | 2,374 |
| 1982 | 16,772,000 | 291,000 | 2,370 |
| 1983 | 18,598,000 | 692,300 | 2,361 |
| [illegible] | [illegible] | [illegible] | [illegible] |
| '80-'84 change | +48.5% | +91.2% | +1,442 (+84.3%) |

*Fiscal year ended Jan. 30, 1985.
Source: CSA research

Due to an improved third quarter, J. C. Penney did not reduce inventory enough to avoid the fourth quarter crunch, characterized by slow sales and heavy promotions.

# Penney fashionable, but margins down

*TV ad spots helped J. C. Penney increase market share in soft lines.*

J. C. Penney may have increased its fashion awareness among shoppers, but gross margins suffered due to high inventory. Gross margins slipped 0.4% to 32.9% on sales of $13.4 billion.

The nation's No. 3 retailer was not the only chain which suffered from excess inventory and depressed margins in the fourth quarter. But Penney has made a major effort to achieve merchandise dominance and boost market share with aggressive programs. Still, the chain continues to have major problems.

Early in 1984, the company was already aware that inventories were in excess of plan. But because gross margins improved during the third quarter, Penney did not reduce inventory enough to avoid the fourth-quarter crunch, characterized by slow sales and high promo activity. Even analysts were surprised. Having predicted that margins would decline about 0.5% in Penney's last quarter, analysts saw instead a 2.2% drop (on a FIFO basis). Management expects inventories to be on plan by the start of the second half of 1985.

Sales were up 11.4% companywide, to $13.4 billion, while operating profits dropped 7.3% to $435 million. Penney execs blame higher selling, general and administrative expenses, especially advertising costs, and higher interest expense from borrowing to finance high inventories. After switching to N. W. Ayer for institutional ads in 1984, ad expenditures jumped 22% to $465 million.

Those ad costs, however, started to pay off. "You're looking smarter than ever" TV spots for lines like Stafford and Lee Wright in men's wear, and Halston III in women's helped Penney increase market share in soft lines. About $1 of every $10 spent on men's and children's wear goes to Penney. Sales of women's and junior apparel increased 17% over '83 levels, and sales of national brands in these categories were up 26% over '83.

Full-line metro market stores were the best performers, with sales up 13.8%, and sales per gross square foot at $106. The number of soft line stores and geographic stores declined as Penney continued to close off unprofitable units. Soft-line stores had sales per gross square foot of $98, and geographic stores only $95. Sales for Penney stores and catalog operations rose 12.1% to $12.4 billion, while operating profits declined 6.9%. □

## Credit cards collect customers

J. C. Penney's decision to broaden the use of credit cards appears to be paying off. Sales charged to the Penney card were up 15.6%, to $5.9 billion, in 1984, and those charged to outside cards were up 42.8% to $1 billion. More than half of all purchases made last year in Penney stores were on a credit card.

As it becomes more like a department store, Penney has been gradually expanding its credit-card horizons. VISA cards have been accepted since 1979, MasterCard since 1980 and 1984 saw American Express make its debut at Penney.

Penney has also increased the minimum payment on unpaid balances, although it is still below the department store average. Changes such as these will help make Penney's credit operation more asset-efficient, say execs, and will enable the chain to use credit cards as a sales tool.

Penney believes that credit-card customers are the best customers. Chain research shows that frequent shoppers make 70% of their purchases on credit cards, and the average credit sales ticket is twice that of a cash transaction. To generate further credit action, Penney did a target mailing early this year to inactive accounts. These customers could deduct 15% from all purchases made during one day on their Penney cards.

| Year | Sales (000 omitted) | Profits[1] (000 omitted) | Stores |
|---|---|---|---|
| 1980 | $10,824,000 | $283,000 | 2,119 |
| 1981 | 11,369,000 | 393,000 | 2,077 |
| 1982 | 11,414,000 | 439,000 | 2,046 |
| 1983 | 12,078,000 | 467,000 | 2,014 |
| 1984* | 13,451,000 | 435,000 | 2,104 |
| '80-'84 change | +24.3% | +53.7% | −15 (−0.91%) |

*Fiscal year ended Jan. 26, 1985.
[1]Income from continuing operations.
Source: CSA research

At Dayton Hudson, revenue increases of 15% over 1983 were not strong enough to offset depressed earnings caused by the consolidation of the department stores.

# Dayton Hudson breaks $8 billion in sales

*Miami-based RG. Branden's boasts a broad assortment of goods for the home.*

Dayton Hudson, the nation's fifth largest retailer, cracked the $8 billion sales mark last year. Revenues for the year, ended Feb. 2, 1985, climbed a solid 15% over 1983.

The increase, however, was not strong enough to offset depressed earnings caused by the promotional retailing environment, and the consolidation of the Dayton's and Hudson's department stores. Earnings rose only 6% from $245.5 million to $259.3 million—far below the 15% gain corporate officials anticipated.

The pressure on gross margins was felt hardest in the department store division where operating profits fell 31% last year. Lower-than-expected sales coupled with expenses associated with combining the two divisions hurt the operation. The stores were forced to cut prices and advertise aggressively in an attempt to lower inventory levels during the second half of 1984. This too was related in part to the combination of the two chains. During 1984, sales at the department stores crept up only 4% to $1.54 billion.

Despite a rather lackluster year for the department stores, Dayton Hudson's Target and Mervyn's divisions recorded exceptional results. Mervyn's pumped out a 21% increase in operating profits on sales that soared 27% from $1.7 billion to $2.1 billion. Same store sales rose 11% and sales per square foot increased from $232 to $245.

During the year, Mervyn's moved one percentage point closer to its goal of shaving three percentage points of its 1983 operating expense ratio by 1988. Mervyn's plans to reduce this ratio so that it has the flexibility to promote at lower margins without depressing earnings.

Better expense control and the addition of the Honors private label apparel line helped Target record a stunning 33% gain in operating profit during 1984. Strong fourth quarter performance by the California Target units, aided by a strike at one of Target's competitors, helped the 217-store chain record a 14% jump in volume.

Expansion was rapid last year, however, in Dayton Hudson's specialty operations. Overall, volume rose 15% from $672.1 million to $770 million.

Finally, Dayton Hudson launched another specialty concept, RG. Branden's in Miami. The 50,000-sq.-ft. store (40,000 sq. ft. of selling space) features a staggering array of goods for the home falling in the middle- to upper-price range. □

## Consolidation costs trim net

Dayton Hudson's profits were stung last year by the costs of consolidating its two department store chains, Dayton's and Hudson's.

"Our earnings were reduced by unusual expenses of 9¢ per share resulting from the repositioning of our department store operations," says chairman and ceo Kenneth A. Macke.

| Year | Sales (000 omitted) | Profits (000 omitted) | Shares |
|---|---|---|---|
| 1980 | $4,232,500 | $139,200 | 931 |
| 1981 | 4,942,929 | 153,500 | 929 |
| 1982 | 5,966,752 | 190,300 | 981 |
| 1983 | 6,953,255 | 245,457 | 1,570 |
| 1984 | 7,978,000 | 259,300 | 1,576 |
| '80-'84 change | +88.5% | +87.6% | +369 (+27%) |

Fiscal year ended Feb. 2, 1985.
Source: CSA research

Although Dayton Hudson expected the merger would impact on earnings—along with the costs associated with its sale of Diamond and John A. Brown—analysts say the Minneapolis-based retailer underestimated those costs.

The gross margin situation was particularly thorny in the chain's third quarter when FIFO margins slipped 0.7% from 30.1% to 29.4%.

Dayton Hudson's cost in merging its two divisions will not have a long-term impact on earnings. However, the promotional nature of retailing can, and the company is attempting to insulate itself from that by upgrading its department store mix. For example, in the future, according to Macke, there will be fewer off-price events.

Costs associated with repositioning of its department stores to snare greater market share, and expenditures to launch MainStreet took a toll on Federated's bottom line.

# At Federated, repositioning took its toll

*At Federated, Bloomingdale's will be a more important vehicle for the future.*

Last year, Federated Department Stores suffered from the implementation of new strategies it hopes will pay off in the long run.

Costs associated with the repositioning of its department stores in order to snare greater market share, as well as expenditures needed to launch MainStreet, took a toll on the bottom line.

The crunch was felt when Federated was forced to take a more promotional stand in order to survive in the highly competitive fourth quarter market. Federated took heavy markdowns, especially during Christmas. Bloomingdale's, in fact, ran ads for its first ever pre-Christmas markdown sale.

So, although sales increased 11.3% to $9.67 billion, earnings declined 8% from $329.3 million to $286.7 million. The department stores, which account for 68% of sales and 89% of operating profits, were the hardest hit. Earnings dropped 2.8% from $637.7 million last year to $619.8 million.

Undaunted, Federated officials believe the negative impact the repositioning had in 1984 will not be a long term problem. The company also points out that there were unusual costs last year associated with the launch of MainStreet, Federated's newest division aimed at "moderate income" shoppers.

Federated plans to open six more MainStreet units in Chicago during 1985. Future markets Federated is reportedly eying for MainStreet include Milwaukee, Minneapolis, Kansas City and St. Louis.

Although Federated is investing heavily in remodeling its old divisions and launching new ones, it has proved it will dispose of those which do not fit into future plans. In 1984, for example, Federated shed its eight-store Boston Store division. It sold the stores for $80 million to P. A. Bergner & Co.

Last year was also a time for adding some pizzazz to the two discount divisions, Richway and Gold Circle. Sales at these operations climbed 7% last year to $1.1 billion. Operating profits were off 2.2% from $39.5 million to $32.3 million.

Gold Circle became the first discount operation to install scanners chainwide. It also debuted a new prototype complete with upgraded merchandise and fixturing. Richway was given a new pricing image and decor package in 1984. A new prototype is scheduled to be introduced in 1985.

Finally, Federated unveiled its first Filene's Basement in a major regional mall with the opening of a unit in Braintree, Mass. □

## Federated's wheels in motion

| Year | Sales[1] (000 omitted) | Profits[1,2] (000 omitted) | Stores[1] |
|---|---|---|---|
| 1980 | $5,319,900 | $487,400 | 262 |
| 1981 | 6,936,600 | 569,884 | 291 |
| 1982 | 6,423,200 | 527,800 | 390 |
| 1983 | 7,315,600 | 582,500 | 424 |
| [illegible] | [illegible] | [illegible] | [illegible] |
| '80-'84 change | +49.7% | +33.3% | +170 (+64.8%) |

[1]Fiscal year ended Feb. 2, 1985. [2]Excludes supermarkets. [3]Operating profits.
Source: CSA research

It used to be easy for Federated. With some of retailing's hottest properties under its corporate umbrella—Bloomingdale's, Filene's and Burdines, for example—Federated was able to count on financial growth.

But as the retailing climate shifted to a more promotional environment, Federated found it could no longer improve gross margins. In fact, Federated's margins have been slipping: Since last year, gross margins dropped from an already low 27.8% to 26.6%. Return-on-equity has sagged below competitors, too. Federated's ROE now stands at about 14% vs. Macy's 20.5% and Dayton Hudson's 18.5%.

The company has put the wheels in motion to correct its lackluster performance. Over $103 million was spent last year remodeling the department stores into "headquarter" outlets for key classifications of merchandise. The money spent to make room for the new deep assortments was almost twice the dollars allocated for remodeling in 1983.

Expansion of the more successful Federated operations is also key to future results. Last year, Federated unwrapped a Bloomingdale's in Miami, a Burdines in Gainesville, Fla., and a Filene's in Waterford, Conn. Bloomingdale's will be a more important vehicle in the future—plans call for a Bloomingdale's in Boca Raton, Fla., in 1986 and in Chicago in 1987.

## Remerchandising to include more branded goods, closing of unprofitable units and expanding store-within-a-store concepts have aided the ailing Montgomery Ward.

# Ward labors after consistent profits

Although Montgomery Ward posted its second consecutive year of profits—after three back-to-back years of red ink—the retailer is still laboring toward consistent profitability.

For the first quarter of 1985, ended March 31, Ward reported a loss of $2 million, narrowed from the $3 million reported a year ago for the same period. Revenues for the Chicago-based retailer declined 3% to $1.2 billion.

For fiscal 1984, Ward earnings climbed 32.5% to $53 million on sales that rose 8.1% to $6.5 billion. This represents a sharp contrast to 1980 when Ward lost $162 million on sales of $5.7 billion.

A great deal of the improvement can be attributed to Ward's new direction under Stephen Pistner (who left Ward for Rapid-American Corporation at year-end). Although Ward's net-to-sales ratio of 1% is still at the bottom of the general merchandise retailer's pile, Pistner made significant operating improvements by trimming expenses.

Over the last four years, Ward has cut 27,000 jobs including 3,000 management positions. These moves, Ward says, have helped boost sales per employee by 54% over that four-year period. Most recently, Ward began eliminating about 500 more positions.

At the same time, Ward has also been closing unprofitable units, including catalog centers. Sixty-eight units have been shuttered over the past four years. The closing of the marginal stores helped Ward improve its sales per square foot from $159 in 1983 to $176 in 1984.

Ward has restructured its merchandising strategies to include more branded merchandise. During 1984, Ward opened a specialty auto concept, a home electronic unit, a home store and an appliance prototype, all designed to be stores-within-a-store. This August, Ward will debut its first unit combining its seven specialty concepts.

The costs associated with the new look, however, took a toll on Ward's financial sheet. Expenses rose 7% while gross margins dipped from 26.6% in 1983 to 26.5% in 1984.

The catalog and discount divisions of Ward continue to hold down results. Catalog sales increased a healthy 11.9% last year—but closing unprofitable centers was expensive. Some peg losses of the catalog business as high as $25 million. Jefferson Ward does not fare much better: Sources say the discount arm lost another $29 million last year. □

*For fiscal 1984, Montgomery Ward earnings climbed 32.5% to $53 million.*

**The Kinney division led Woolworth's domestic operations—athletic footwear, in particular, was strong. The specialty stores did not fare as well.**

# Woolworth bounds back

*Despite some glum spots, the Woolworth bottom line improved considerably.*

Sales for F. W. Woolworth rose 5.2% to $5.737 billion, primarily due to gains in domestic operations. Operating income was up 19.5% to $141 million as domestic sales rose faster than cost of goods and selling, general and administrative expenses.

The Kinney division led domestic operations with operating income of $134 million, vs. $102 million in '83. Woolworth execs describe the Kinney and Foot Locker chains in this division as "workhorses generating strong sales and profits." Those two chains, in particular, are now skimming the cream off choice mall locations opened in the early 80's. Woolworth has also done well in the athletic footwear boom, and acquired another chain, the Athletic Foot Factory, in 1984 to take further advantage of this category.

But there were also some sad stories in the specialty store area. "J. Brannam was expected to turn the corner this year, but posted another profit loss. Company officials will be watching that division carefully for the next few months, possibly considering a regrouping. The Little Folk division had flat profits. The falloff in the two divisions is attributed to "brutal" conditions in the off-price industry.

Despite these glum spots, the Woolworth bottom line as a whole improved considerably. Notes William Lavin, sr. vp and cfo: "Profit margin improvement was real. It was not affected by other income, lower depreciation or interest expense, larger LIFO credit, or lower effective tax rate." Gross margins rose from 32.5% in '83 to 32.8% in '84. Operating income as a per cent of sales was up to 7.2% in '84.

Chairman and ceo John W. Lynn stated that the company has now progressed halfway toward key financial objectives in less than half the specified time.

Woolworth is launching two new specialty mall store chains that will be operated as a separate division. Herald Square Stationers will carry stationery and novelties in 5,000-6,000-sq.-ft. stores, while Afterthoughts will be accessories-oriented in just 1,000 sq. ft. Another division has been formed to run The Rx Place, a deep-discount drug store concept debuting in southern New Jersey.

Specialty stores accounted for 31% of total sales in 1984 and contributed 39.5% of domestic operating income. By 1989, specialty stores are expected to bring in 37% of sales. Woolworth achieves higher operating profit margins from specialty stores, but both specialty store and variety store margins increased in '83 and '84. □

## Bigger is not necessarily better

Woolworth officials continue to assert that there is a future for the variety store operations. Most of the attention, however, is being focused on small specialty store divisions, which address one segment of the variety business, and the down-sized variety store prototype.

"We believe the variety store is viable in the right mall and in the right size," says Bob Jennings, president and ceo of U.S. Woolworth. "It's one of the very few places where you can find that depth of staple merchandise all in one place."

But Woolworth is becoming choosier about what constitutes staple merchandise and how much square footage is needed to display it. The new variety store prototye unveiled this year in Brunswick, Ga., is only one-third the size of a typical Woolworth store and has only 50 ft. of mall frontage. Merchandise stocked is oriented to the beach community's needs.

About 200 of the 1,200 variety stores have been renovated since 1982. In 1984, the first full comparison year, these stores showed a 30% increase in sales and 45% gain in profits over '83. About 100 more variety stores will be refurbished this year in the U.S.

| Year | Sales ($000 omitted) | Profits ($000 omitted) | Stores |
|---|---|---|---|
| 1980 | $5,102,000 | $140,000 | 4,900 |
| 1981 | 5,370,000 | 97,000 | 5,197 |
| 1982 | 5,124,000 | 82,000 | 5,124 |
| 1983 | 5,450,000 | 118,000 | 5,270 |
| 1984 | 5,737,000 | 141,000 | 5,400 |
| '80-'84 change | +12.4% | +0.81% | 925 (+12.8%) |

*Fiscal year ended Jan. 31, 1985.
Source: CSA research

**Choosing markets carefully, stressing everyday low prices, and carefully communicating goals to employees are part of Wal-Mart's strategy for success.**

# Wal-Mart has no quarrel with 1984

*Sales productivity advanced at Wal-Mart to $166 per square foot in 1984.*

Wal-Mart stores in small towns and cities stretching from New Mexico to Florida and Texas to Iowa shrugged off murmurs about a tough year for retailing and again racked up record sales and earnings.

By choosing its markets carefully, emphasizing everyday low prices, and carefully communicating its goals to employees, Wal-Mart makes its 37% sales increase and 39% increase in net income seem almost easy.

The company reached the $6 billion sales plateau before the end of the year and then eclipsed that figure by posting annual sales of $6.4 billion. On a comparable-store basis, Wal-Mart increased sales by 15%.

Sales productivity advanced to $166 per square foot, compared with the $150 figure in 1983. Wal-Mart interprets the gain to mean its stores are continuing to increase their market share in the communities they serve.

Net income improved from $196.2 million to $270.8 million. Stronger competition from Rose's and Duck-wall-ALCO convinced Wal-Mart of the need to stay with its low everyday pricing strategy. That decision, combined with the lower margins from Sam's Wholesale clubs, reduced gross profits to 26.2% of sales from the previous 26.8%.

Net earnings for the year, nevertheless, were 4.2% of sales, a figure that matches the record earnings rate for the previous year.

While Wal-Mart was working to achieve strong sales and earnings, it continued to pursue an aggressive program of discount store expansion and was pleased enough with its Sam's Wholesale Club operation to bring it out of the experimentation stage and into the mainstream of its growth strategy.

One hundred and six discount stores were opened and three were closed, bringing the end-of-year total to 745. In addition, 52 stores were remodeled and 18 older stores were either expanded or relocated.

Eight new Sam's Wholesale Club units were added, bringing the number to 11, in eight cities. The chain is continuing its experiments with one DOT deep discount store, and one Helen's Arts and Crafts store.

This year, Wal-Mart has announced plans to open 115 more discount stores and will enlarge 60 of its most successful existing stores. About a dozen more Sam's will be added in recognition of the operation's compatibility with the discount store operation and its earnings potential. Both the DOT and Arts and Crafts units will be expanded by additional units. □

## Margins slip, expansion continues

Wal-Mart's firm commitment to its everyday low pricing strategy in its discount stores, combined with lower margins from its Sam's Wholesale Clubs, produced 0.6% lower overall gross margins last year.

To partially offset the slip, the chain reduced operating expenses from 19.1% of sales earlier in the year to 18.5% by the end of the year. The reduction was achieved in part as the result of lower expense-to-sales ratios from its wholesale units, with other expense control efforts credited to chainwide results.

The profits strengthened Wal-Mart's financial position. Long-term debt declined.

As Wal-Mart follows its expansion strategy, it continues to saturate market areas and then expand into adjoining markets. The chain currently has stores in 19 states, and plans to open stores in Wisconsin and Colorado this year and Minnesota in 1985. During the 1984 fiscal year, 7.5 million sq. ft. of store space were added.

**Crucial to May Dept. Stores' success has been its Excellence in Retailing program, a balance between divisional autonomy and centralized direction.**

# May Dept. Stores: Strategic successes

*May Dept. Stores enjoyed a healthy year and avoided a takeover bid.*

Not only was 1984 a banner year for sales and earnings at May Department Stores Co., but the retailer was also able to avert a possible takeover attempt.

When Crown Books Corp. sought to increase its holding in May stock, rumors surfaced that Thrifty Corp., which owns 35% of Crown, was trying to raid May.

May quickly brewed up a poison pill by creating $100 million in new voting preferred stock. That issue, plus $10 million, was then signed over to Metropolitan Life Insurance for its 50% interest in Parklabrea, a 178-acre residential and commercial development in Los Angeles.

Most recently, Crown sold all of its 440,000 shares of May stock, quelling the talk of a takeover.

While May was busy fending off offers, it was also busy growing sales and earnings. Total sales hit $4.7 billion, an increase of 13.7% over fiscal 1983. Equally impressive was the company's same-store sales increase of 8.7%. Earnings jumped 14.5% to $214 million, from the $187 million recorded in 1983. Return-on-shareholder's equity hit a solid 18.5%.

May's department stores continue to produce the bulk—70% of sales and 69% of earnings—of the results. Department store volume climbed to $3.2 billion, up 8.9% over 1983. Operating earnings rose 10.5% to $338.1 million.

Last year, a new May D&F was launched in Colorado Springs. Growth is more ambitious for 1985: A new Hecht's will open in Washington, D.C., a new May in a Los Angeles suburb and a new Famous-Barr in St. Louis.

An even greater growth schedule is on tap for May's Venture division. Five-year growth calls for an addition of 32 more stores at a cost of about $175 million. This year, six new Venture Stores debuted and by the end of 1985, May expects to have 62 of these discount stores under its belt.

Venture produced record results in 1984, too. Sales jumped 17.6% to $215 million with same store increases up 5.5%.

Finally, May's Volume Shoe division continued to produce the best store-for-store gains. Sales climbed a stunning 27.8% to $543.4 million with same store sales up 11.9%. Operating earnings jumped 31.9% from $56.8 million to $77.6 million.

Return-on-sales hit 14.3%, compared with 13.8% in 1983. That was attributed to improved gross margins. Last year was a year of torrid growth for Volume Shoe with 273 new Payless Shoe stores opening, 101 of which were acquired. □

## May Dept. Stores stay a step ahead

May's Excellence in Retailing program has helped the retailer record impressive sales and earnings gains especially during a period when its competitors got stuck on the promotional treadmill.

The St. Louis-based retailer has been ahead of the pack as far as merchandise tracking systems, including weekly and monthly merchandise reports. These systems have allowed May to manage the flow of merchandise without getting caught with bloated inventories.

It has also been quick to act to making changes to boost productivity. Last year, May trimmed every better than 2.7 million sq. ft. of unisex retail space. The result? A 12.6% increase in sales per square foot for department stores and a 9.9% jump for Venture.

The company eliminated unproductive footage that produced sales less than $80 to $90 per square foot. Over the next few years, one-quarter to one-third of May's total space will be involved in remodeling.

Household Merchandising's strategy of a more focused, trimmer operation has raised profits at T.G. & Y., Ben Franklin and Coast to Coast stores.

# T.G. & Y. profits from fewer stores

*Since 1982, 173 remote or unprofitable T.G. & Y. stores have been closed.*

After years of marginal performance, Household Merchandising is becoming leaner, more focused and more aware of its strengths. With profits up 260% in its general merchandise operations, HM is learning that less is sometimes more.

The most dramatic changes have come at the formerly ailing T.G. & Y. chain in the form of closings. During the past two years, 173 stores that were in remote distribution areas or unprofitable have been closed. The pace slowed to 70 closings in 1984, but more are expected this year. T.G. & Y. now has 743 stores.

Ben Franklin, the franchised operation, was more stable, with 1,329 stores in 1984, down slightly from the 1,[illegible] in 1983.

Bernard F. Brennan, president/ceo Household Merchandising, has directed the efforts of the new top managers toward a winnowing of the weak T.G. & Y. stores and a strengthening of those with a good track record. With Brennan's scheduled June 3 return to Montgomery Ward as its president/ceo, the store closing and merchandising initiatives that have helped T.G. & Y. in its turnaround are expected to be continued by the chain's president/ceo, Richard Rustheven.

In 1984, capital expenditures were $48.4 million, vs. $69.9 million in 1983, and $110.5 million in 1982. Only eight new T.G. & Y. stores were opened last year, compared with 21 in 1983 and 41 in 1982. Some stores are scheduled to be remodeled this year, which, in addition to other expenses for data processing, distribution and other equipment are expected to increase capital outlays "substantially" for 1985.

The merchandising group, which includes T.G. & Y., Ben Franklin, Coast to Coast hardware stores and Vons supermarkets, is seeing a turnaround in its gross margins as the result of brand name programs at T.G. & Y. and Ben Franklin.

For 1984, the consolidated gross margin was up slightly to 19.6%, compared with the 19.4% posted in 1983. HM has improved its net sales per employee through improved training, management and marketing programs and has realized a 6% gain in net sales on an identical store basis.

Income in the general merchandise division, dominated by T.G. & Y., was $19.1 million in 1984, compared with $5.3 million in 1983 and a $17.9 million loss in 1982. The results of selected T.G. & Y. store closings and a drive for narrow and deep assortments—with particular emphasis on children's apparel, soft home furnishings and consumer electronics—have put the Sunbelt chain back on track. □

## Household getting back on track

Household Merchandising took some long strides toward greater profitability during the past fiscal year.

Cost cutting measures in the form of T.G. & Y. store closings and increased productivity throughout the merchandising segment including supermarkets are reflected in operating expenses for 1984 that are virtually unchanged from two years earlier. Expenses for 1984 were $5.22 billion vs. $5.21 billion in 1983.

Net sales for the entire merchandising group, including T.G. & Y., Ben Franklin variety stores, Vons supermarkets and Coast to Coast hardware stores, are up 1.8% over 1983, and 1.7% over 1982.

Despite the store closings that began in 1983, inventories were up 15.9% in 1984, at $775.3 million due in part to soft fourth quarter sales. The increase comes on the heels of lower inventories in 1983, which declined 5.7% from 1982.

| Year | Sales[1] ($000 omitted) | Profits[1] ($000 omitted) | Stores[1] |
|---|---|---|---|
| 1980 | $2,670,000 | $23,100 | 4,019 |
| 1981 | 2,911,100 | 25,000 | 3,903 |
| 1982 | 2,822,000 | (–14,000) | 3,760 |
| 1983 | 2,872,000 | 12,100 | 3,632 |
| '80–'84 change | +9% | +12.5% | –1,165 (–28.3%)[2] |

[1]Fiscal year ended Dec. 31, 1984.
[2]Excludes Vons
[3]Also reflects furniture store divestitures.
Source: CSA research

In recent years, operating profits have gained steadily as a result of policing selling, general and administrative expenses at all Zayre divisions.

# Discount stores propel Zayre profits

*Zayre's discount stores will continue to experiment with better merchandise.*

Zayre Corp. racked up yet another strong year despite the lackluster retailing environment. Sales rose 19.5% to $3.1 billion while net earnings increased 30.8% to $80.3 million.

"This is our ninth consecutive year of record sales and earnings and it brings our five-year compound annual growth in net income to 37.0%," says Maurice Segall, president and ceo.

Operating profits, too, have steadily gained as a result of policing selling, general and administrative expenses at all Zayre divisions. Last year, operating income was $175.9 million, or 5.6% of sales, compared with 1983's $141.1 million, which was 5.4% of sales. In 1980, operating profits only accounted for 3.6% of sales.

Selling, general and administrative expenses declined as a per cent of sales over the past five years. In 1984, those expenses represented 18.4% of sales, while they were 20.6% of sales in 1980.

Zayre executives credit the discount department stores for the increase in the company's operating income. The combination of consistent sales growth and tight control over inventories, merchandise margins and expenses bore fruit.

In addition to a sales increase of 15.8% to $2.2 billion at the discount stores, operating profits as a per cent of sales gained too. Last year, those profits represented 5.6% of sales, $122.2 million, compared with 4.8% of sales, $90.8 million, in '83.

The discount stores will continue to experiment with store layouts and to update merchandise and presentation.

The specialty store division, which consists of two off-price chains, T. J. Maxx and Hit or Miss, showed a sales increase of 30.3% to $927.3 million last year. This followed a 35.9% increase in '83 sales over '82.

Operating income as a per cent of sales, however, has steadily declined over the past three years. In 1984, it was 6.9% of sales, compared with 7.7% in '83 and 9.0% in '82.

Segall notes, "T. J. Maxx, our 156 store group of off-price family apparel supermarts, maintained its unbroken record of annual increases in earnings, despite the pressure on merchandise margins stemming from this past year's highly competitive marketplace. Hit or Miss, our chain of 401 women's apparel specialty shops, improved its operating income over the prior year but its results were depressed by excessive markdowns."

Lastly, the corporation continues to explore new ventures. Last year it opened BJ's Wholesale Club, a warehouse store concept, and initial results have been favorable. The corporation plans to open three more 100,000-sq.-ft. units in '85 bringing the total to six. □

## Zayre sets rapid expansion

Now that Zayre Corp. has fine-tuned its merchandising to yield high profits, the Framingham, Mass.-based retailer is turning its attention to rapid expansion. Corporate execs say they want to increase new store space by 50% each year.

Just days after the 1984 annual report was released, the $3.1 billion merchant began takeover procedures for Gaylords National, a 31-unit discount store headquartered in Secaucus, N.J. The acquisition would strengthen Zayre's southern penetration in addition to giving it entry into Louisiana and Delaware.

| Year | Sales ($000 omitted) | Profits ($000 omitted) | Stores |
|---|---|---|---|
| 1980 | $1,394,226 | $17,574 | 531 |
| 1981 | 1,707,139 | 22,147 | 567 |
| 1982 | 2,139,616 | 35,176 | 617 |
| 1983 | 2,613,657 | 61,425 | 749 |
| [illegible] | [illegible] | [illegible] | [illegible] |
| '80-'84 change | +86.9% | +267.6% | +318 (+86.1%) |

*Fiscal year ended Jan. 28, 1985.
Source: CSA research

Last year, the company used $96.5 million for capital expenditures, which was 4.5% of sales and a 29.2% increase over 83's figure. Nearly $39 million was used to build 106 new stores and another $15.9 million went toward renovating older units. In 1982-83, capital expenditures represented 3.9% and 4% of sales, respectively.

During 1985, the corporation expects capital expenditures to be $150 million, approximately 52% more than 1984's total.

# Service Merchandise: Fuel to grow

**Service Merchandise has made gains through its import program and improved merchandise mix.**

Expansion by Service Merchandise during 1984 was lively, but it pales in comparison to the growth in the first months of 1985.

On top of last year's base of 183 catalog showrooms and 12 home improvement warehouse centers (dubbed Mr. HOW), Service bought five more centers in the Chicago market and has agreed to acquire two chains, H. J. Wilson, with 80 showrooms, and Ellman's with 12 stores. The two latest transactions are expected to cost about $173 million and $33 million, respectively.

The emphasis on growth is illustrated by Service's decision last year to sacrifice earnings to fuel expansion. Earnings were down 0.6%, to $44.6 million. The decline in earnings reflected a $4.1 million increase in interest expense. Long-term debt was up 50.8%, to $111.3 million. The debt-to-equity ratio rose to 36.1% in 1984, compared with 29.3% in 1983.

| Year | Sales ($000 omitted) | Profits ($000 omitted) | Stores |
|---|---|---|---|
| 1980 | $ 965,017 | $38,399 | 113 |
| 1981 | 1,827,883 | 23,883 | 116 |
| 1982 | 1,196,283 | 31,988 | 139 |
| 1983 | 1,486,888 | 44,889 | 173 |
| 1984 | 1,696,997 | 44,599 | 183 |
| '80-'84 change | +91.5% | +116.6% | +82 (+72.8%) |

*Fiscal year ended Dec. 28, 1984.
†Includes results from home improvement centers.
Source: CSA research

Although inventory was up 26.4% at the end of the year, Service avoided the price cutting that exacted such a heavy toll on most retailers late in the year. The chain pumped additional money into advertising during a sluggish fourth quarter and produced a net sales increase of 11.5% to $730.3 million for that quarter. Gross profit inched up 0.5%.

Gross margin for the year improved to 24.2%, compared to 23.3% in 1983 and 22.8% in 1982. The gains can be attributed to continuing improvements in the merchandise mix and the success of the chain's import program, which has eliminated "intermediate markups." Experiments at its Nashville catalog showroom in expanded information services and improved merchandising techniques have been successful. The Nashville store is expected to be the prototype for continuing innovations.

The home improvement warehouse operations are a major new direction undertaken in mid-1983, despite disappointing forays into specialized lingerie, jewelry and computer stores. Service was pleased with the results from its first two warehouse stores in South Florida and saw those operations as having major growth potential. □

# Allied: Sticking to strategy pays off

**Allied has stayed with its successful strategy of selling reasonable quantities of goods at full markup.**

High levels of promotional activity by competitors impacted on Allied's bottom line in 1984. However, the company for the most part stuck with its strategy of selling reasonable quantities of goods at full markup and showed respectable increases for its efforts.

Allied's sales were up only 8% over '83, to $3.97 billion, but earnings were ahead 9.5%, to $140.73 million. The company's Jordan Marsh division in New England proved to be an example of how staying out of the promo wars paid off. Up against month-long, storewide promotions at rival Filene's in December, Jordan Marsh responded with a one-day-only, select promotion. The store was able to maintain its leadership in the Boston market and also became Allied's top profit producer for the year.

Allied expects to be well-positioned in '85, as inventories are in line with sales plan and expense levels are within budget. Allied's three major financial objectives—4% net profit margins, 15%-17% return on beginning stockholders' equity, and 40% dividends on earnings—were not met in '84.

| Year | Sales ($000 omitted) | Profits ($000 omitted) | Stores |
|---|---|---|---|
| 1980 | $2,288,000 | $ 83,836 | 229 |
| 1981 | 2,732,887 | 88,332 | 812 |
| 1982 | 3,218,634 | 90,958 | 833 |
| 1983 | 3,675,873 | 128,471 | 570 |
| 1984 | 3,970,000 | 140,730 | 581 |
| '80-'84 change | +73.5% | +67.9% | +371 (+164.1%) |

*Fiscal year ended Feb. 2, 1985.
Source: CSA research

The Wren's and Block's department store divisions were merged last year, and another division, Troutman's, closed. One specialty store division, Harzfeld's, was also shuttered in '84, although two stores were converted into other Allied specialty units.

Specialty stores continued to increase their contribution to sales, up to 18% in '84. Although long-term prospects indicate that department stores will only contribute 75%-80% of sales by 1990, president Thomas Macioce asserts that Allied will continue to be primarily a department store company. About 25 new department stores will open in the next four years, while specialty store expansion will be more aggressive. □

*Poor market conditions hampered business at The Bon last year.*

# CHH's year of living dangerously

## CHH's 1984 sales rose 20.1% despite turmoil caused by the threat of a takeover by The Limited.

It was a year of living dangerously for Carter Hawley Hale. In an attempt to keep its independence from The Limited, CHH sold 37% of its equity for $300 million in cash to a third party, General Cinema Corp. Then it sold its star division, Waldenbooks, to K mart. CHH won this battle but Leslie Wexner, ceo of The Limited, says that the war isn't over yet.

Despite the turmoil caused by the threatened acquisition, 1984 sales rose 20.1% to $3.7 billion (based on restated figures which exclude Waldenbooks), while net earnings were up 32.9% to $89.7 million. Earnings include a one-time after-tax gain of $62.5 million for the sale of Waldenbooks in addition to an after-tax charge of $1.1 million for costs occurring from the takeover battle.

However, profits from continuing operations before interest expense, income taxes, and nonoperating income were $160 million, showing only a 3% increase over the previous year's $154.9 million.

| Year | Sales* | Profits | Stores |
|---|---|---|---|
| 1980 | $2,313,000 | $ 57,241 | 197 |
| 1981 | 2,466,807 | 44,705 | 208 |
| 1982 | 2,599,400 | 48,885 | 227 |
| 1983 | 3,101,602 | 67,400 | 274 |
| 1984 | 3,724,000 | 89,700 | 297 |
| '80-'84 change | +60.9% | +56.0% | +71 (+36%) |

*Fiscal year ended Feb. 2, 1985.
Restated figures excluding Waldenbooks.
Based on a fifty-three week year.
Includes a one-time, after-tax gain of $62.5 million from the sale of Waldenbooks in addition to an after-tax charge of $1.1 million for costs occurring from the takeover battle with The Limited.
Source: CSA research

Analysts say CHH's sales volume was up because its stores built up high inventories to increase store traffic. But the high cost of carrying these inventories kept down profits from continuing operations. Interest expense this year was $117.2 million, or 3.1% of sales, compared with 1983's $92.3 million, or 3% of sales.

CHH's toughest department store markets are Los Angeles, San Francisco and Philadelphia. In Los Angeles and San Francisco, The Broadway Southern California and Emporium Capwell are finally on solid ground after entering the 80's on rocky roads. The Broadway had been slowly losing market share but an increase in promotions during the past two years has helped the CHH volume leader re-establish itself in the Los Angeles area. Emporium Capwell (which is up against two promotional giants—Macy's and Mervyn's) showed a solid sales gain of approximately 16% for the second consecutive year, according to observers.

The Philadelphia-based John Wanamaker division remains a problem for CHH, not having produced a profit in the six years CHH has owned it. L. F. Rothschild, Unterberg, Towbin's retail analyst Bernard Sosnick says that the stores need to be updated in appearance and in their merchandising strategies in order to compete with Bamberger's sharp tactics.

During 1984, CHH opened 24 Contempo Casuals, one Neiman-Marcus, and one Emporium Capwell. Thirty new Contempo Casuals are scheduled for '85.

CHH operates six department stores, three high fashion specialty stores and one specialty chain. □

# Price Co.: Nobody does it better

## There are plenty of imitators, but no one has yet challenged Price Co.'s leadership in warehouse retailing.

How long can Price Co. continue having its way?

The company's cash and carry warehouses are no longer unique. Imitators are springing up everywhere, but no one has dared challenge Price Co., which remains the acknowledged master of running this high-risk form of retailing.

As a result, Price Co.'s performance keeps getting better. Sales of general merchandise to retail customers in fiscal 1984 topped $351 million, according to *CSA* estimates. Corporate earnings rose faster than sales, jumping 94%, a sure sign of a stable company.

Price Co. clearly understands this business and is getting better at it. Last year the company started charging its retail members a $15 fee, figuring the extra cash would help it get a bigger checkout ring from shoppers eager to make good use of their membership. Price Co. then promptly took that additional revenue, estimated at $2 million, and used it to lower its gross margins. With already the lowest margins among major general merchandise chains, Price Co. pushed its margins down to 10.1% last year.

| Year | Sales* | Profits | Stores |
|---|---|---|---|
| 1980 | $ 48,000 | $ 2,647 | 4 |
| 1981 | 71,140 | 3,139 | 4 |
| 1982 | 114,200 | 7,001 | 7 |
| 1983 | 196,199 | 14,732 | 11 |
| 1984 | 351,000 | 28,600 | 20 |
| '80-'84 change | +630% | +1,002% | +11 (+275%) |

*Fiscal year ended Aug. 31, 1984.
CSA estimates of general merchandise sales to retail customers.
Source: CSA research

With imitators springing up all over, Price Co. is now expanding more rapidly and tightening its hold on its major markets. In fiscal 1984 the company opened just three units, but in one month last fall, shortly after its current fiscal year began, the company debuted five units, giving it 20.

Those openings came largely in established markets where Price Co. is a dominant presence. In Los Angeles, for instance, a consumer buying study found that nearly 11% of the discount shoppers select Price Co. warehouses as their outlet of first choice.

This year Price Co. increased its stake in Price Co.-East and will presumably exercise more control over the units. They may need it. Denver-based Pace Membership Warehouses, counted one of the better Price Co. imitators, announced its entry into the Baltimore/Washington market and this may give Price Co. its first taste of serious competition. □

# Federated Group: Southwest expansion

## The Federated Group is expanding into Arizona, Texas and secondary California markets.

*The home electronics specialist marked sales at $229.8 million in 1984.*

By acquiring 12 Texas Videoland outlets in December and adding another 11 superstores in California and Arizona, The Federated Group more than doubled its number of stores in 1984.

The home electronics specialist marked sales at $229.8 million, an increase of 66% over 1983 volume of $138.2 million. After-tax earnings rose 91% to $11.7 million.

With many of its southern California stores facing maturation and with increased competition later this year from the entry of Circuit City into its Los Angeles home base, The Federated Group is pursuing growth through expansion into Arizona, Texas and secondary California markets.

Seven new units will open in California and Arizona this year. Four Houston area stores will debut in the spring and fall to complement seven Dallas and five Houston converted Videoland outlets. In all, The Federated Group projects that the market stretching from Texas to California can profitably absorb a minimum of 50 additional units.

| Year | Sales ($000 omitted) | Profits ($000 omitted) | Stores |
|---|---|---|---|
| 1980 | $ 80,719 | $ 827 | 12 |
| 1981 | 74,836 | (832) | 16 |
| 1982 | 89,243 | 963 | 15 |
| 1983 | 138,224 | 8,127 | 20 |
| 1984* | 229,799 | 11,679 | 42 |
| '80-'84 change | +278.5% | +1,311.9% | +31 (+288.3%) |

*Fiscal year ended March 3, 1985.
Source: CSA research

In 1984 net income expressed as a per cent of sales rose to 5.1% from 4.4% the year before. Adjusted to exclude a $2.5 million pretax gain from the sale of a leasehold interest, however, The Federated Group's after-tax margin was at a relatively unchanged 4.5%.

Though at presstime The Federated Group did not reveal exact figures, gross margins in 1984 were reported to be above the previous year's 28.6%. Since the company's net margin remained steady (with the exclusion of the leasehold gain), it may be assumed that either SG&A or interest expense increased in 1984.

The Federated Group has had trouble holding down costs before. Three years ago SG&A expense jumped to 28.4% of sales before falling to 20.1% in 1983. Videoland's highly leveraged capitalization also brought with it a heavy debt. □

# Bradlees' 'difference' pays off

## Bradlees' investment in store refurbishing helped sales grow to $1.4 billion, but earnings have slowed.

Bradlees' investment in refurbishing its discount stores into department stores "with a difference" helped sales grow to $1.4 billion in 1984. Sales per net square foot averaged $161 for the 132-store discount chain, with some of the refurbished stores doing over $200.

However, earnings are not growing at the fast pace of the last two years. In '83, when Bradlees opened 21 new stores, operating profits jumped almost 60%. In 1984, Bradlees had a net gain of only five stores. Although sales rose 18.7%, operating profits grew by only 5.9%, to $85.2 million.

Bradlees only contributed 73.0% of parent Stop & Shop's profits in '84, compared to 79.2% in '83. Still, the discount chain remains the most profitable division of Stop & Shop. The supermarket division, with 51% of total sales, contributed only 25.3% of profits.

And although Bradlees continued to be the best performer in the fourth quarter, sales dropped off from earlier in the year. For the 13-week Christmas season, sales were up 14% over the 12-week period in '83, and comparable-store sales were ahead 12%. In that same period in '83, Bradlees contributed 84.4% of Stop & Shop's fourth-quarter profits.

| Year | Sales ($000 omitted) | Profits ($000 omitted) | Stores |
|---|---|---|---|
| 1980 | $ 634,286 | $ 15,729 | 89 |
| 1981 | 718,790 | 25,948 | 91 |
| 1982 | 871,636 | 50,474 | 106 |
| 1983 | 1,182,815 | 80,486 | 127 |
| 1984* | [illegible] | [illegible] | [illegible] |
| '80-'84 change | +121.8% | +442.2% | +43 (+48.3%) |

*Fiscal year ended Feb. 2, 1985.
Source: CSA research

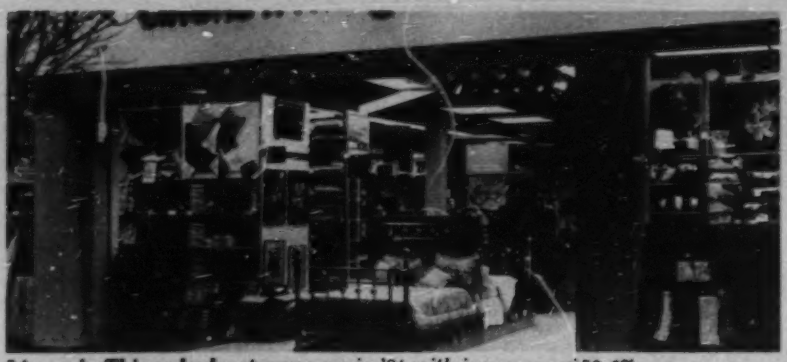
Even the refurbished stores weren't strong enough to move out excess inventories at year-end. As a result, end-of-the-year sales, profits and gross margins all suffered.

Despite ending '84 on that sour note, the company intends to continue its store remodeling program, with at least seven more slated for completion by year-end. Bradlees also plans to open seven new stores this year in its East Coast territory.

Stop & Shop is looking for greater contributions from general merchandise operations in '85, but not necessarily from Bradlees. In January, Stop & Shop acquired 19 Almy's moderate department stores, which will be a separate division. □

# Melville holds steady in a tough year

## Although 1984 increases were not as dramatic as '83's, Melville Corp. reported sales and profit gains.



*Linens 'n Things had a strong year in '84 with increases of 59.6%.*

Melville Corp. held its own in a tough year for retailing in general and off-pricers in particular. The specialty store merchant with two off-price operations—Marshalls and Linens 'n Things—reported 1984 sales and profits gains. However, the '84 increases were not as dramatic as those in 1983. Sales in 1984 rose 10.5% to $3.5 billion from $3.2 billion in '83.

Operating income was less impressive. It gained 5.2% to $329.8 million in '84, up from $313.4 million in '83. This was on the heels of a 26.8% increase the year before.

Melville operates 10 specialty store divisions in apparel, footwear, home textiles, drugs, health & beauty aids and toys. This year, the footwear and apparel divisions (which include home textiles) weighed down overall performance.

Sales for the apparel and home textiles companies grew 11.7% to $1.8 billion. Although Linens 'n Things and Wilsons had strong years, with increases of 59.6% and 20.3%, respectively, Foxmoor negatively impacted the division with a sales decline of 8.1%. A soft second half year in addition to an increase in promotional activity accounted for the downtrend. Not surprisingly, Melville sold Foxmoor.

| Year | Sales* ($000 omitted) | Profits* ($000 omitted) | Stores* |
|---|---|---|---|
| 1980 | $1,817,932* | $199,197* | 4,139* |
| 1981 | 2,288,999 | 229,549 | 4,721 |
| 1982 | 2,646,527 | 247,888 | 5,018 |
| 1983 | 3,166,102 | 313,369 | 5,234 |
| 1984 | 3,497,000 | 329,800 | 5,290 |
| '80-'84 change | +92.7% | +65.6% | +1,217 (+29.4%) |

*Fiscal year ended Dec. 31, 1984.
Includes only footwear, apparel, home textiles and toy divisions.
Operating profits.
Also does not include toy division.
Source: CSA research

In the footwear division, sales rose 6.3% to $1.4 billion. Melville Footwear Manufacturing sales declined 37.7% due to the closing of most manufacturing plants, a program started in '83. Additionally, Melville continues to pull in the reins on Thom McAn; sales crawled ahead only 1%. This year, Thom McAn closed 72 stores.

The toy division, comprised of 533 Kay-Bee stores, was Melville's best performer. Coming off an extremely good year in '83, Kay-Bee continued its upward swing with a sales gain of 23.4% to $347.0 million. □

# Monkey wrench in Macy's machine

## Sales and earnings indicate that Macy's growth rate may be hurt by chains emulating the Macy's formula.

Is Macy's bubble about to burst? Sales and earnings results for the latter half of 1984 (the first half of Macy's current fiscal year) indicate that Macy's growth rate may be hindered by other chains emulating the successful Macy's machine formula. That strategy, however, backfired on Macy's and its imitators in 84's highly promotional atmosphere.

For the fiscal year ended in July 1984, Macy's results were acceptable. Sales rose 17.2% to $4.065 billion, and earnings were up 18.8% to $222 million. Comparable store sales rose 14.3%, but return on average shareholders' equity dropped half a point.

New stores, like Miami, performed well in their first year, with the Aventura unit doing about $230 per square foot, much better than the chain average of $170.

Macy's commitment to high inventories boomeranged later in '84. For the period ended Feb. 2, 1985, net earnings declined 5.6% in the 27 weeks (compared to 26 weeks in '83-'84). Sales were up 10.1%, or 8.4% after factoring out the extra week. If Macy's earnings were restated on a fiscal year basis ended Feb. 2, net earnings for '84 would be nearly flat, with sales up only 8.4%. For the fiscal year ending in July '85, analysts predict Macy's earnings will stay flat, although inventory levels have been reduced.

| Year | Sales ($000 omitted) | Profits ($000 omitted) | Stores |
|---|---|---|---|
| 1980 | $2,373,000 | $102,300 | 87 |
| 1981 | 2,693,752 | 118,757 | 92 |
| 1982 | 2,979,400 | 135,900 | 91 |
| 1983 | 3,466,100 | 186,700 | 92 |
| 1984 | 4,065,000 | 222,000 | 93 |
| '80-'84 change | +71.3% | +116.8% | +6 (+6.2%) |

*Fiscal year ended July 28, 1984.
Source: CSA research

The company made two important moves to shore up its position as a national department store chain. The Macy's Midwest division was merged with Davison's to become Macy's Atlanta in February of this year. And the company readied plans to open three units of its Bamberger's division around Washington, D.C.

Further openings are planned in Texas, New Orleans and Birmingham, Ala. But its target of $300 per gross square foot by 1990 may no longer be attainable as the chain works to regain its leadership. □

# Tandy: Computers and profits slide

## Tandy's sales and profits were hurt by lowered consumer demand for personal computers.

*Despite recent disappointments, Tandy is aggressive about the future.*

Tandy Corp. turned in its 12th straight year of double-digit sales gains in fiscal 1984, but that is where the good news stops. For the year ending June 30, 1985 the news will be even less encouraging.

Sales for 1984 gained 10.6% to $2.7 billion, while net income edged up only 1.2% to $281.9 million. Net income expressed as a per cent of sales measured 10.3%, dropping from 1983's 11.3%. This marked the first fall in net margin after six consecutive years of increases.

The less-than-expected sales and profit picture was primarily the result of decreasing consumer demand for computers and increased margin pressure in a highly price-promotional retail environment.

Computers, software and peripherals were the most important product categories for Tandy, accounting for 33.6% of worldwide warehouse shipments in 1984, compared to 34.6% the previous year. Gross margins dropped from 59.3% in 1983 to 56.7% in 1984.

For the first nine months of the current fiscal year, the results are even more bleak. Tandy's sales for the three quarters ended March 31, 1985 have increased 1% to $2.16 billion from $2.14 billion last year.

| Year | Sales (000 omitted) | Profits (000 omitted) | Stores |
|---|---|---|---|
| 1980 | $1,384,637 | $112,226 | 7,715 |
| 1981 | 1,681,373 | 169,882 | 8,181 |
| 1982 | 2,032,986 | 224,895 | 8,519 |
| 1983 | 2,475,186 | 278,521 | 8,868 |
| [illegible] | [illegible] | [illegible] | [illegible] |
| '80-'84 change | +97.7% | +151.1% | +1,383 (+16.3%) |

*Fiscal year ended June 30, 1984.
Source: CSA research

Profits are down 39% to $135.9 million, compared to $223.4 million in 1984. Tandy execs project that profits for the full fiscal year ending June 30, 1985 will show a drop to approximately $195 million, or a decrease of about 31% from 1984.

Despite recent disappointments, Tandy is aggressively mapping out plans for the future. In March, the electronics giant announced that it would buy the 24-store Scott Appliance Group, operator of audio/video/appliance outlets in the Memphis, Tenn., and Jacksonville, Fla., markets.

The Scott Appliance acquisition will allow Tandy to enter the name brand discount side of electronics retailing as a possible future source of growth. □

# Toys "R" Us hones competitive edge

## Toys "R" Us is hooked on electronics: New signage and fixtures to improve displays should help sales in '85.

Although Toys "R" Us ended the fiscal year with high inventories, management does not see this as a problem. The majority of these goods are staple toy lines that the toy supermarket can sell at its regular, low everyday prices. In addition, Toys "R" Us' major competitors were also left with high inventories and are marking down goods and cutting back on new purchasing. This, Toys "R" Us speculates, will allow it to pick up additional market share in '85. At the end of '84, chairman Charles Lazarus estimated that Toys "R" Us controlled 14% of the U.S. toy market, up from 12.5% in 1983.

Electronics proved to be a problem area in the fourth quarter. The category accounted for only 9% of Christmas sales in 1984, compared with 18% in '83, due to a slowdown in video games and computers. Toys "R" Us remains committed to electronics, however. New fixtures and signage to improve displays should help sales in '85. And the company feels new computer products and an expansion of lines to possibly include low-end VCRs will be the key to electronics profitability.

| Year | Sales (000 omitted) | Profits (000 omitted) | Stores* |
|---|---|---|---|
| 1980 | $ 887,332 | $ 21,893 | 111 |
| 1981 | 783,286 | 48,929 | 139 |
| 1982 | 1,041,736 | 64,162 | 166 |
| 1983 | 1,319,642 | 92,317 | 177 |
| [illegible] | [illegible] | [illegible] | [illegible] |
| '80-'84 change | +184.9% | +295.8% | +166 (+95.5%) |

*Fiscal year ended Feb. 3, 1985.
*Includes Kids "R" Us, department stores and international stores.
Source: CSA research

Sales for the entire Toys "R" Us operation, which included 198 U.S. toy stores, 4 in Canada and 1 in Singapore, 10 Kids "R" Us stores and 4 department stores, were up 28.9% to $1.7 billion. Same-store sales increased 14.4%. Earnings were ahead 20.7% to $111 million—below the 35% annual increases the chain has averaged since 1978.

Future growth will come from international and stateside openings. About 35 new toy stores will be opened in the U.S. in '85, including new territories of upstate New York and the Carolinas. More units are planned for Canada and Great Britain. Fifteen Kids "R" Us stores will debut in '85. The four department stores (all that remain of the original 10) are profitable, but the company does not plan to expand them.

To increase productivity, management has been reorganized into six divisions, each with an operating head who reports to president Norman Ricken. The company is currently testing UPC scanners in three stores to speed customers through checkouts. □

# Dillard's: Acquisitions taken in stride

## Dillard's acquisition of the ailing Stix, Baer & Fuller chain seems to be less of a profit drain than expected.

*Dillard's may be forced to become more promotional than it cares to be.*

Did Dillard's bite off more than it could chew with its two 1984 acquisitions? Apparently not. While the percentage of earnings increases trailed that of the sales gain, the 42.5% earnings surge, to $49.5 million, and 50.7% sales rise, to $1.3 billion, were far from ordinary. However, earnings as a per cent of sales were not as spectacular as in recent years.

Dillard's purchase of the ailing Stix, Baer & Fuller chain from ADG for $93 million (book value) in February 1984 was the most worrisome move. Management has obviously been pumping money into the chain, adding sophisticated data processing equipment, more stock and more sales help. The old downtown St. Louis flagship, which has undergone a complete renovation, is scheduled to reopen this July as part of a downtown mall. A new Stix/Dillard's store opened in Jefferson, Mo., in March. The chain apparently has not been the profit drain that was expected and should begin contributing to Dillard's bottom line this year.

The other acquisition, Diamonds in Tempe, Ariz., and John A. Brown in Oklahoma City, from Dayton Hudson for $143 million, was made later in the year and did not impact much on '84 figures. Both of those chains were profitable but not dominant in their markets. With the Brown chain, Dillard's may begin competing extensively with itself in Oklahoma City.

Sales for the acquired stores exceeded plan, and expenses were cut by consolidating old operations into Dillard's. Expenses as a per cent of sales have for the most part decreased. Advertising, selling, general and administrative expenses dropped 0.3% to 25.5% over '83, although interest and debt expense was up 0.3% to 3% of sales due to the cost of financing the new stores. Gross margins dipped slightly, from 37.2% in '83 to 36.4% in '84. That's still better than the average department store figure. The same holds true for operating income, down 0.5% to 10.9%, but still above average. □

# Ames acquires G. C. Murphy

## Since 1980, G. C. Murphy has fattened its bottom line by emphasizing its profitable discount stores.

After a year of being a prime takeover candidate, G. C. Murphy was finally acquired this past April by Ames Department Stores Inc. for a cash deal of $48 per share.

Rocky Hill, Conn.-based Ames became a suitor after it acquired 3% of the company stock and options to buy 19.4% from a Minneapolis investor who had posed an unfriendly threat. Although several other companies expressed interest in Murphy, Ames was the only retailer to approach the chain.

Prior to the Ames offer, Murphy initiated a $42.50-a-share leveraged-buyout attempt under an Employee Stock Ownership Plan.

The attraction of the 383 store chain is not surprising. Over the past five years, McKeesport, Pa.-based Murphy has fattened its bottom line—earnings have rocketed 104% since 1980—by emphasizing its more profitable Murphy's Mart discount stores. These 119 units (up from 118 last year) now account for 69% of total sales.

Sales for the year, ended Jan. 31, rose 4.7% to $913.3 million from $872 million the year before. Earnings jumped 9.2% from $18.4 million to $20.1 million and operating profits, a more accurate measure, rose 11.6% (operating profits reported before a one-time gain of $1.3 million for the repurchase of debt).

Murphy's improvement in its net-to-sales ratio is most impressive: In 1982, the net-to-sales hovered at 1.2%; now it is a respectable 2.2%.

Management attributes its better performance to the growth of the Marts and to the closing of unprofitable variety units. Last year the chain shuttered 21 variety units. Eighty-four of these stores have been closed over the past five years.

The newest wrinkle at Murphy is its new FIND (Fashions in New Dimensions) test stores in Robinson Township, Pa., and Gallipolis, Ohio. Both of these stores feature an upgraded apparel selection. □

# Best's poor '84 spurs restructuring

## Despite Best's confidence in its ability to succeed with catalog showrooms, 1984 was a disappointment.

Best has achieved the growth it sought through the acquisitions of Modern Merchandising and Basco, but the 85 additional catalog showrooms that helped produce record sales of $2.25 billion during 1984 also showed a glaring need for Best to consolidate its acquisitions and reorganize.

Despite the 8.2% increase in net sales, net earnings of $13.6 million were down 59% compared to the previous year's $33 million. Gross margin for 1984 eroded to 24.9% vs. 26% for the previous year. Selling, general and administrative expenses for the year were 19% compared to the 18.5% for fiscal 1983.

| Year | Sales ('000 omitted) | Profits ('000 omitted) | Stores |
|---|---|---|---|
| 1980 | $ 841,083 | $21,676 | 75 |
| 1981 | 1,109,064 | 19,963 | 109 |
| 1982 | 1,581,650 | 26,121 | 200[1] |
| [illegible] | [illegible] | [illegible] | [illegible] |
| 1984* | 2,252,856 | 13,600 | 244[1] |
| '80-'84 change | +168.0% | −37.2 | +169 (+225.3%) |

*Fiscal year ended Feb. 2, 1985.
[1]Includes showrooms and specialty stores.
Source: CSA research

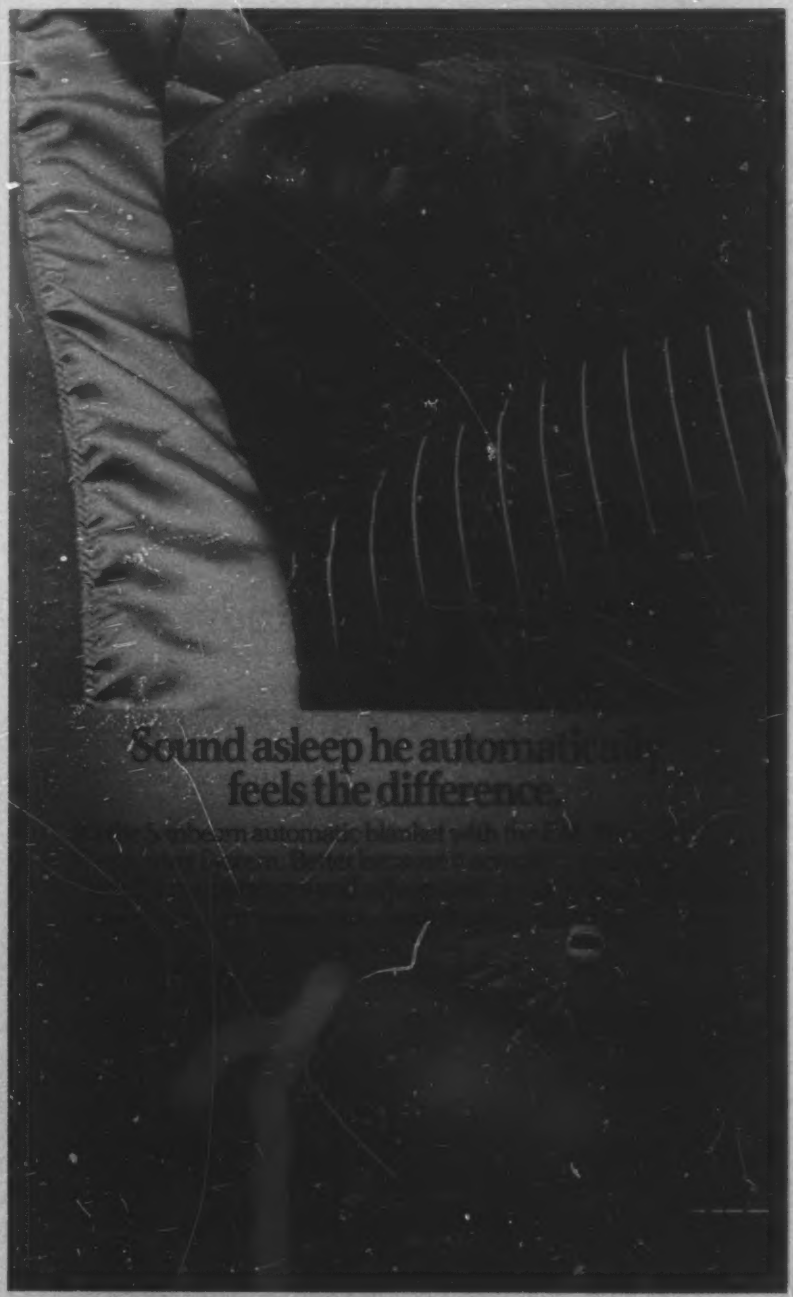
Having grown from 75 showrooms in 1980 to 244 units in 1984, the company has embarked on an aggressive program to gain tighter central control, increase productivity and change its merchandise mix to take advantage of the muscle its growth has brought. The programs and changes now being put in place exemplify many of Best's problems during the last fiscal year.

On the operations side, Best has announced a regional structure for its catalog showrooms to achieve tighter central control of operations, increase monitoring of merchandise and costs, and improve communications between showrooms/stores and headquarters.

On the merchandising side, the company will centralize its buying staff, eliminating the regional buying system at former Modern Merchandising showrooms.

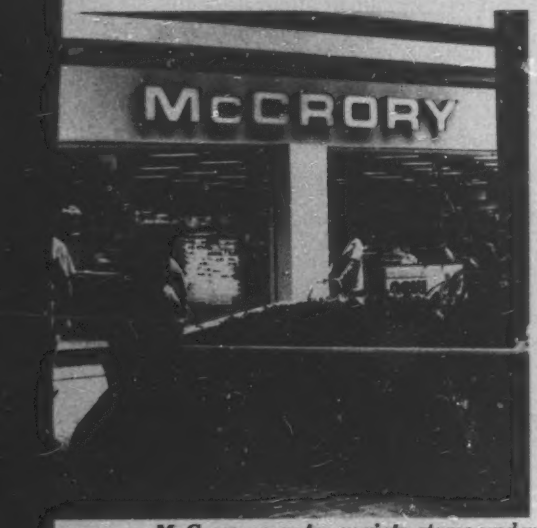
Best plans to reduce the assortment of merchandise in some lines to increase the commitment to current merchandise and improve inventory control. The jewelry selection will be sharpened to improve turns, and more name brands in sports apparel will be added. Infant and toddler wear will be expanded, and as will its electronics.

In specialty retailing, Best's emphasis will be on Ashby's 29-store off-price women's apparel chain. The future of the 11-store Best Jewelry chain is still being assessed. □



# McCrory fine-tunes its variety stores

## McCrory's management is concentrating on its variety store strategy to strengthen market position.




*McCrory operates variety stores under several names in 37 states.*

The attention given to upgrading large-volume stores paid off for the second consecutive year at McCrory, the variety store division of Rapid American Corp. Sales grew 12.2% to $918 million from $818 million in 1983, while operating profits leaped forward an estimated 33.7% to $101 million from $75.5 million the previous year. This represents approximately 11% as a per cent of sales compared with 9.2% one year ago.

McCrory's management has been fine-tuning its pure variety store strategy to strengthen its market position in the 37 states in which it operates under the names of McCrory, J. J. Newberry, H. L. Green, S. H. Kress and McLellan. Over the past few years, the company has grown by acquiring locations from other merchants and continues to look for stores to acquire.

If all goes well, McCrory Corp. could be running the Los Angeles-based Zodys discount stores by the end of '85. Rapid American already has a partial interest in Zodys parent company, HRT Industries, which pulled itself out of bankruptcy last year.

| Year | Sales[1] (000 omitted) | Profits[1,2] (000 omitted) | Stores |
|---|---|---|---|
| 1980 | $674,000 | $ 43,400 | 761 |
| 1981 | 762,000 | 50,000 | 734 |
| 1982 | 799,000 | 48,200 | 723 |
| 1983 | 818,000 | 75,500 | 716 |
| 1984* | 918,000 | 101,000[3] | 688 |
| '83-'84 change | +36.2% | +132.7% | −28 (−3.7%) |

*Fiscal year ended Jan. 31, 1985
[1]Variety Stores only
[2]Operating profits
[3]CSA estimate
Source: CSA research

McCrory made headlines this year by naming Stephen Pistner as chairman and chief executive of McCrory Corp., and by selling Lerner Stores to The Limited. Pistner comes to McCrory from Montgomery Ward, where he was in the midst of a turnaround effort when he was snatched away.

Lerner Stores had spotty sales and earnings for the past few years, note analysts. McCrory was in the process of repositioning this specialty division when The Limited made an offer to buy it. Earlier this year, Rapid American sold Lerner for $260 million plus the assumption of $40 million in debt. The proceeds will go toward beefing up McCrory Stores and for new ventures, say industry observers. □

# Mercantile boosts store productivity

## Mercantile was able to maintain strong operating profits by keeping a tight rein on S G & A expenses.

Like many department store companies, Mercantile Stores had inventory problems during 1984 which impacted sales and earnings. Earnings inched ahead 1.9% to $84.8 million from $83.2 million in 1983.

Sales were only slightly better because of the closing of the nine-unit Peoples Store division, based in Tacoma, Wash. While total company sales rose 5% to $1.7billion, comparable store sales grew 8.2%.

The gross margin also was affected by excessive promotional activity. It slipped from 32.6% in '83 to 31.7% in '84. For the first time in five years, the company did not better the previous year's .

Nonetheless, the company was able to maintain strong operating profits as a per cent of sales by keeping a tight rein on selling, general and administrative expenses. Operating income was $176 million or 10.3% of sales.

Mercantile Stores operates in 42 U.S. markets and three Canadian cities. Gayfers, Castner Knott and J. B. White (totaling 35 stores) account for 50% of the sales. McAlpin's, The Jones Co., Lion and Bacon (totaling 26 stores) comprise 40% of the sales. The remaining 10% comes from 19 stores in the Joslins, Hennessy's Glass Block, deLendrecie's and Right House divisions.

| Year | Sales (000 omitted) | Profits (000 omitted) | Stores |
|---|---|---|---|
| 1980 | $1,186,676 | $42,294 | 83 |
| 1981 | 1,269,491 | 57,895 | 84 |
| 1982 | 1,428,385 | 69,941 | 84 |
| 1983 | 1,625,958 | 83,222 | 77 |
| 1984* | 1,788,000 | 84,700 | 72 |
| '83-'84 change | +54.9% | +100.4% | −5 (−6.01%) |

*Fiscal year ended Jan. 31, 1985.
Source: CSA research

The company's emphasis is on maximizing current store productivity, rather than adding new stores. Sales per gross square foot increased to $167 this year from $156 in '83. Two stores opened: One 135,000-sq.-ft. Castner Knott unit in Huntsville, Ala., and a 27,000-sq.-ft. J. B. White home furnishings store in Augusta, Ga. Mercantile closed the Gayfers downtown Mobile, Ala., store because of its low productivity.

This year, Mercantile will add two more Joslins stores. The first store opened in Colorado Springs and the second one is scheduled for July in Longmont, Colo.

Capital expenditures were $51 million this year compared with $40 million in '83 and $41.3 million in '82. This year, the company estimates expenditures to rise to $60 million, financed from operations and borrowings. □

# Rose's: Good, looking for better

## Although figures were not as high as in '83, Rose's had a solid year: Sales and earnings were up.

It was another solid year for Rose's Stores. Sales and earnings both climbed upward though this year's increases were not as impressive as those in 1983.

Sales rose 11.8% to $927 million. In '83, volume jumped 25.3% to $829.3 million.

"Net earnings increased 9.2% for the year to $23.9 million," says L. H. Harvin III, Rose's chairman. "That means we have more than doubled our earnings in two years." Moreover, this earnings increase comes on the heels of a whopping 89.3% gain in '83 that brought profits up to $21.9 million.

Rose's has steadily grown earnings as a per cent of sales over the past five years. This year, earnings were 2.6% of sales, compared with 1.7% in '82 and 1.2% in '80.

Commenting on '84, Harvin says, "LIFO impacted us positively this year, and that was unexpected. As a matter of fact, we received a LIFO credit instead of a charge. In addition, our tax rate was lower than normal because of investment and targeted jobs tax credits."

However, he adds, "Even with another record year, we could have and should have done better. If fourth quarter sales had met expectations, and if our inventory losses, markdowns and shrinkages had been better, we all would have been more proud of the results. We are anxious to correct our mistakes in 1985."

Rose's operates 197 stores in 13 Southeastern states. Two years ago, corporate sold off its variety store division to free up management's time for concentration on its

discount stores. Since then, the company has developed a new prototype and has been remodeling old stores to new format and upgrading merchandise at all Rose's stores.

Apparel departments, in particular, have been beefed up by the redesign. Located in the front of the stores, these higher-margin categories are the first departments customers see. New fixtures provide more display in addition to allowing customers to view more facings of each item. Industry observers attribute Rose's solid performances over the past few years to merchandising changes such as this one. □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# BATUS battles chilly retail climate

**BATUS's stores are in very competitive markets, which contributed to poor showing in sales last year.**

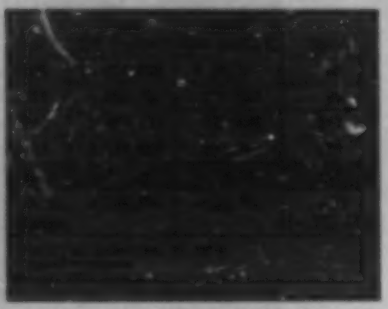
*Sales in BATUS's 12 retail divisions declined a whopping 26.9%.*

Many retailers got nipped by the frosty retailing climate last year but few were hit as hard as BATUS. Although sales from its 12 retail divisions advanced 7.3% to $3.4 billion, operating profits tumbled 10.2% to $196 million.

It was the first year of the past five for BATUS that earnings had declined. Previously, the company managed to grow sales and earnings through acquisitions of chains. The last company obtained, Marshall Field, is already in its second full year of operation under the BATUS umbrella. Analysts attribute the poor showing in sales and earnings to the highly competitive markets in which BATUS stores operate. In particular, Gimbels East and Marshall Field had to be as promotional as ever.

The Chicago-based Marshall Field reacted to the pressure from additional high-end retailers, such as Neiman-Marcus, I. Magnin, Saks and Lord & Taylor, all of which have staked out claims in Marshall Field's crowded territory. With Bloomingdale's scheduled to open on Michigan Avenue in '86, it is not likely that Chicago's promotional warfare will soon die dow...

Capital expenditures for the corporation dropped from $113.2 million in '83 to only $98 million last year. The majority of the funds went toward opening 21 stores. With so many of the BATUS stores in need of refurbishing, analysts question the reduction and allotments.



During 1984, Saks opened two stores, one in San Antonio and one in Palm Springs. The New York-based division is up to 40 units.

Marshall Field plans to follow Saks into San Antonio in 1986 with one new store, although it did not open any in 1984 and does not plan to open any this year. The San Antonio store will be Marshall Field's fourth in the Lone Star state; the others are in Dallas (1) and Houston (2).

Kohl's continues to grow rapidly. It added five new stores, giving the Brookfield, Wis.-based merchant 34 units. This expansion came on the heels of nine new stores in '83 and five new ones in '82. □

# Circuit City poised to take on L.A.

**By early 1986, Circuit City plans to open nine L.A. superstores, in addition to six planned for fall '85.**

Boosted by 37% same-store sales increases, Richmond, Va.-based electronics and major appliance retailer Circuit City Stores (formerly Wards Co.) posted a 46% sales gain from $356.7 million in 1983 to $519.2 million in 1984. Net profits of $20.2 million were ahead 68% over last year.

The operator of 48 Circuit City and Lafayette/Circuit City stores in the Southeast and New York, 15 superstore showrooms in Virginia, North and South Carolina, Tennessee and Georgia, and 31 licensed departments and two outlet locations in Zodys discount stores in the Southwest, Circuit City turned in its third consecutive year of earnings growth, despite the loss of departments in shuttered Zodys units.

By Feb. 28, 1986, Circuit City expects to close all of its Zodys leased departments and begin opening nine Los Angeles area superstores in addition to the six already on the boards for the fall of 1985.

In 1984, Circuit City net earnings as a per cent of sales increased to 3.9% from 3.4% the year before. Though gross profits slipped slightly to 28.6% of sales from 28.8% in 1983, the decline was offset by reductions in both SG&A and interest expenses.

Expressed as a per cent of sales, interest expense fell from 3.8% in 1983 to 2.7% last year. Selling, general and administrative expenses fell from 22.2% of sales in 1983 to 21% last year.

Commenting on projections for 1985, president Richard L. Sharp says, "The Company anticipates sales in the range of $725 million-$750 million. Earnings for the year should again be at record levels but are not expected to increase as rapidly as sales, particularly in the first two quarters.

"This is principally attributable to slower store-for-store growth and costs associated with new store openings, including the significant restructuring of the Los Angeles market," Sharp concludes. □

# ADG may go back to its roots

## Carefully planned expansion and control of inventories result in improved sales and earnings at ADG.

*Caldor was forced into heavy promotions due to high inventories.*

A difficult year for Associated Dry Goods may prompt the retailer to turn more attention to its department store roots as the earnings of its discount stores slow.

Corporate sales of $4.1 billion last year were a 10.5% gain for ADG's 11 department store divisions and Caldor and Loehmann's, its discount stores. Earnings of $120.7 million were up 4.4%.

Operating profits for Loehmann's and Caldor went from $86.3 million in 1983 to $86 million in 1984, a decline of 0.35%. Loehmann's faced pressures from promotional department stores and Caldor was forced into heavy promotions because of high inventories and increased discount store competition. By comparison, the department stores' operating profit rose from $227.3 million to $240 million, a 5.6% increase.

After years of relatively easy expansion in the Northeast, and the accompanying dramatic boost in sales, the discount stores have been forced to cut into their margins.

The selection of former Bloomingdale's president James Guinan, noted for his operations expertise, as ceo of Caldor, and merchandising exec Len Williams as president of the discount chain, puts Caldor on solid management footing. Now the task is to improve margins through greater emphasis on apparel, which would put Caldor in a better position to fend off challenges from its major competitor, Bradlees.

ADG's 11 department store divisions fared better than the discount operations because their strength in the markets they serve allowed them to ride out the storms of the fourth quarter.

ADG is particularly pleased with the performance of Lord & Taylor and The Denver Dry Goods Company because they were able to exceed sales and profit plans in a difficult year.

During 1984, just two department stores were added and 14 discount stores were opened. The expansion plans for 1985 and 1986 are more balanced. ADG will open five Caldor stores this year and 13 Loehmann's. Eleven new department stores will be opened, with the emphasis on growth areas in Florida, Los Angeles and San Diego.

Despite ongoing expansion, ADG reduced its debt-to-equity ratio to 33.8% last year from the previous 48.3%. Inventories at year end, on a comparable-store basis, were up 12.4% for department stores and 9.2% for the discount store group.

When ADG fell into the same fourth quarter inventory trap that snared most retailers in 1984, its combined annual gross margin slipped to 24.5% from its previous performance of 24.9%. In the early months of the new fiscal year, ADG has been able to bring inventories in-line with its sales projections and has stayed with its planned promotional programs. □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